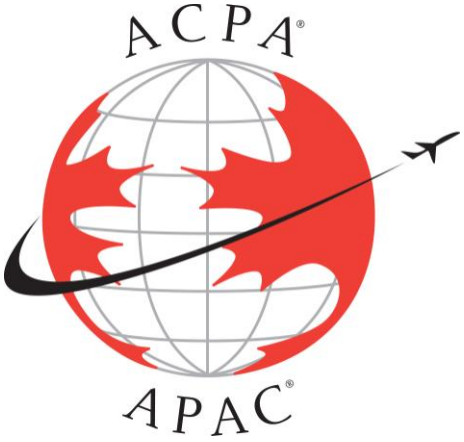

ACPA

Audit & Review

For: MEC & ACPA Members

April 27, 2014

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ACPA

Audit & Review

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1 Executive Summary

1.1 ACPA commissioned Team Works to conduct a review of past activities in order to determine how ACPA might learn from the past, develop appropriate recommendations for the future and evolve its organizational structure and governance so that it would be better able to perform its ability to deliver valuable services to its members.

1.2 Unfortunately, it appears that ACPA has repeatedly failed to deliver on what we believe is its most important role...to deliver a negotiated, member approved contract.

1.3 This audit report has been prepared by Max Carbone of Team Works, who has significant experience in strategy, organizational development and leadership with a wide variety of organizations. The primary goal was to consider the history of ACPA with a focus on more recent activities in order to evaluate ACPA's performance.

1.4 Fortunately, it appears that there were no significant inappropriate behaviours or improprieties by individuals who have operated at ACPA. Rather, the vast majority of ACPA participants have appeared to have acted in what they truly believe is the best interests of the pilot group. In many cases the perspective or opinion as to how to proceed may have been diametrically opposed and may not have been the best option, but the intent gleaned from the vast majority of participants interviewed indicated that they acted in a manner that they felt was in the best interests of pilots.

1.5 The current organizational structure and governance model has been a major contributor to the lack of organizational performance. As a result, there are some significant recommendations made to evolve the governance and structure of the organization. These will be presented by Gregory Gubitz of Grosvenor Ventures, who worked in association with Team Works to produce the Governance and Structure Recommendations that are concurrently being presented to the MEC and the Membership body.

1.6 Although there are many organizational recommendations in Mr. Gubitz's report, it is clear that having what appears to be a "dual leadership structure" with both a President and MEC Chair who have operated with vague lines of reporting and accountability has been a major contributing factor to organizational dysfunction. This approach has led to disunity, divided forces and confusion. Sadly, it has also had a major negative impact on many, if not all of the hard working and committed ACPA Members who volunteered or were asked to step up to leadership positions to fill the role of President, MEC Chair and Negotiating Committee Members. Pilots recognize the importance of having one person in command, and yet the current structure allows an ambiguous dual leader approach which leads to organization dysfunction.

1.7 Various divides in the Membership, ranging from regional differences, past airline affiliation, seniority, type of equipment flown, nature of relationship with the Company and union political philosophy have resulted in a fractured group of pilots with different interests and opinions. This lack of unity and fragmentation negatively impacts the ability of the organization to achieve its objectives.

1.8 There have also been several leadership errors that have contributed to the challenges and lack of results by ACPA for its members. Unfortunately, at a few key junctures, ACPA's leadership did not make the decisions required either in a timely manner or sometimes not at all. These will be identified in this report as activities that were not managed appropriately. However, it is our opinion that no one person or individual is wholly to blame. The nature of the organization structure allows ambiguity and lack of accountability, so some of the fault must be shared by the Members and the MEC as well as by the various individuals involved.

1.9 Of course it is relatively easy to make accurate predictions about leadership activities that took place in the past. With the benefit of hindsight, it is easy to point out mistakes in leadership judgement and to know what the correct call should have been during what was likely an emotional, confusing and stressful period of time for those involved. As such, we respectfully request that Members do not behave in an overly critical manner toward any colleague who we have suggested may have made a strategic or tactical error during their tenure. Leadership roles are difficult and filled with uncertainty. ACPA's Members who become MEC representatives and Executives are trained to excel as pilots and not as managers of complex organizations or contract negotiators.

1.10 Unfortunately, past mistakes cannot be unwound. As much as we would all like to be able to turn back time to change history, the only prudent course of action is to evaluate what occurred, learn from it and then determine what the best and most appropriate course of action for the future should be. That has been the intent and focus of this activity, to study what occurred, to identify what went wrong and to provide some recommendations and suggestions that improve the chance of success and increase the likelihood of positive results and greater Membership satisfaction.

1.11 An employee's job, whether that of an individual or that of a collective, is to deliver as much value as possible to the organization. The employees' goal is to also maximize their own or collective compensation. The obligation of the contract negotiation function is to negotiate as much as is realistically possible from the employer. It is our conclusion that a minority of ACPA's Members who possess a militant, distrustful anti-company attitude with unrealistic financial expectations has significantly contributed to the failure of contract negotiations with the Company. This attitude has collectively caused significant damage to wages and working conditions of the entire pilot group and likely has resulted in a lack of growth and financial performance by the Company.

1.12 For the Members of ACPA to thrive and optimize their working rewards, it is recommended that the entire Membership seriously re-consider the type of relationship needed with the Company and consider whether the best option to maximize compensation is a mutually beneficial one. Due to the seniority system prevalent in the aviation industry, ACPA pilots are for all intent "married" to Air Canada and leaving the Company is not a viable option. As a result, the leading successful option is to strive to make ACPA's Members the greatest positive contributors and leaders in Air Canada so that the company can grow, be profitable and deliver rewards to those leaders who helped enabled growth and profitable results.

1.13 Finally, ACPA and its Members may need to recognize that leading a group of 3,000 powerful leaders cannot be done effectively by allowing each member to have a real or perceived right to direct its activities by what is commonly referred to as being a "grassroots" organization. Members must have a voice and have the right to vote. However, an organization of this magnitude cannot be run effectively by allowing Members to decide on each and every issue. An organizational structure that provides authority and accountability in an appropriate chain of command is the best alternative for success. Air Canada is a large, powerful and sophisticated organization. Operating using a collective grassroots mentality to deal and negotiate with the Company has proven to be a losing proposition for ACPA and its members. If Members do not effectively delegate power to their leaders who have both the expertise and capability to do the work required, then the likely result will be more of the historic organizational dysfunction and poor financial results for Members. Members need to give strong consideration to reconstituting the organizational structure in a more professional and proven manner that optimize effectiveness while ensuring accountability and transparency for the organization and its Members

2 Introduction

2.1 ACPA is a unique organization that comprises approximately 3,000 pilots who work for Air Canada. It is an organization whose purpose is to serve its members career needs, optimize compensation and safety for Air Canada's pilot group.

2.2 ACPA primarily acts as a union of Air Canada pilots to represent their interests to improve wages and working conditions. It also serves as an association of professional pilots who work for the Company to encourage best practices, education, camaraderie and support them in their career and various career-related personal activities.

2.3 Unfortunately, ACPA has not delivered the level of performance and results expected by its members in recent years. Although it has performed quite well in areas like safety, pilot health and membership services, it has consistently under-performed in a most important area of responsibility, namely that of negotiating the best possible contract for its members.

2.4 The relationship between Air Canada and its pilots is a long and complex one. The employment agreement is likely the most challenging one in the country. It is a tremendously lengthy and complicated document that had evolved over many years of activity, negotiations and debate. It is a substantial contract with highly interconnected activities, agreements and linkages that requires substantial aviation industry expertise and legal complexity to understand. This report does not provide any significant assessment regarding the various contracts mentioned.

2.5 This report does share an independent perspective on various activities that took place during recent history so Members can determine what transpired on their behalf. There is some commentary throughout the report and some recommendations and insights at the conclusion.

3 Purpose

3.1 During the strategic planning session in the spring of 2013, it was determined that an "audit" of past activities at ACPA needed to be conducted due to the level of Membership distrust and concern with past activities. The purpose for this audit was to have an open look by a trusted third party who could examine what occurred to result in the lack of success in both contract negotiations and organizational performance and report findings back to both the MEC and the Members.

3.2 Membership trust in the organization was very low and it was determined that if integrity was to be restored, that an evaluation of past activities that would be communicated to the Members would help clarify the past and restore integrity for future activities.

3.3 As a result, the current President, MEC Chair and the previous MEC decided to retain the services of an unbiased third party view to examine, assess and report on what has taken place at ACPA during its history, especially during the last round of contract negotiations.

3.4 ACPA Members contribute significant dues to the Association and having a transparent look into the recent history and activities of the organization was deemed to be important. Members deserve to have greater insight into how previous leadership and structure of the organization has impacted their contract, working conditions and relationship with the Company.

3.5 The purpose of the report is to review and report on what transpired. The intent has been to determine how to best move ahead and make positive changes so that future activities result in the best possible outcome for the pilots who are members. Although there are mentions regarding leadership mistakes made and blame for some activities, the objective was not to seek out a scapegoat or to cast unwarranted, negative aspersions on any particular ACPA Member, Volunteer or Staff.

4 Approach

4.1 In order to conduct the audit, a variety of information sources were accessed to provide a broad overview of organizational activities. ACPA is an organization of many members across Canada working for a major airline with hundreds of people involved in Board, Committee, Base and various Association activities. In order to come up with a reasonably accurate audit, an approach was taken that would look to optimize the information obtained while managing the costs associated with doing such time intensive work.

4.2 This report expresses the interviewer's perspective of what occurred. It is impossible for one person to accurately reflect all of the activities, perspectives and viewpoints of over 3,000 pilots, Company representatives and others involved in this history. However, a significant effort has been made to review the situation and accurately reflect what occurred at the leadership levels of ACPA to provide Members with an unbiased perspective.

4.3 In the spring of 2013, the interviewer, Max Carbone of Team Works, was retained to facilitate ACPA's strategic planning session. As part of this process, Mr. Carbone interviewed ACPA staff, MEC Members and various ACPA Members prior to the strategic planning session. Mr. Carbone then facilitated the team planning activities whereby the MEC developed a strategic plan that was subsequently ratified by the ACPA members in the fall of 2013.

4.4 Mr. Carbone was knowledgeable about the organization and had the relevant leadership experience to work with a strong group of players at ACPA. Perhaps more importantly, Mr. Carbone had also developed a good level of trust with the members of the MEC, who shared various and sometime opposing views, as a fair, unbiased man who helped the leaders of ACPA strive to do what was in the best interests of their Members.

4.5 Team Works was subsequently engaged by ACPA to conduct the audit of past activities. Mr. Carbone, with the support of governance expert and lawyer Mr. Gregory Gubitz of Grosvenor Ventures, were retained to both conduct the audit and to make recommendations for governance and structure. Mr. Carbone focused on the audit activities and Mr. Gubitz focused his activities on governance.

4.6 The focus of this report is on the audit or perhaps could more aptly be called a "review" of the leadership and relationship activities at ACPA. The interviewer was given the mandate to access documents, information sources and to conduct interviews with an appropriate number of individuals from staff, current & past MEC, past Presidents, former members of the previous Negotiating Committees, advisors to ACPA and Company executives.

4.7 It is important to note that there has been no attempt to evaluate the merit of any of the complex employment contracts or offers submitted. This would be very subjective and would have required significantly more time, cost and likely have been without any significant benefit to ACPA. The opinions shared have largely been gleaned from individual interviews, opinions and documents provided by a large number of individuals and corroborated by more than one source. Over time, the "story" of what occurred became relatively clear and consistent. Although it is impossible to capture the exact picture of the past with so many players, organizations and moving parts, the interviewer is confident that the essence of what is being conveyed is accurate and consistent with what transpired.

4.8 The project was managed by current ACPA President, Captain Craig Blandford. While Captain Blandford was responsible for managing the project, he remained content neutral and was not interviewed as part of the assignment. Captain Blandford allowed unfettered access to

individuals, members and did whatever he could to encourage the author to interview and have private discussions with any individuals or organizations that were either interested or deemed necessary.

4.9 Various sources of information have been obtained by researching through the ACPA Journal, MEC Meeting notes, various documents supplied by ACPA, etc.

4.10 The primary source of information for this report has been gleaned through over 80 in-person interviews and meetings with various individuals involved and peripheral to the organization. These interviews were with ACPA staff, MEC members, LEC members, current and past staff and ACPA Members. Some were in-person, some on the telephone and some at large meetings and ACPA functions. Interviews were also conducted with senior Company executives, Company negotiators, ACPA professional service advisors, Government leaders and a few relevant industry players.

4.11 In any case involving such a large number of individuals, with numerous activities taking place sequentially, it is inevitable that the exact reporting will not be totally complete. However, it is strongly felt that the spirit of what is conveyed is very accurate. After participating in numerous interviews and discussions with a vast number of people, although the specific details may be in question, the picture that emerged was quite clear. For pilots who are detail oriented, I respectfully ask you to put some of your natural inclination to understand all the data aside and consider whether the essence of what is being communicated by an experienced expert in leadership, strategy and organizational behaviour is an accurate portrayal of what transpired.

4.12 It was apparent that most of the failings and issues involved governance structure, leadership, strategy, direction, experience and philosophical alignment. It did not appear that there was malevolent intent by ACPA leaders.

4.13 It is also very important to note that in order to obtain the information from various individuals, the interviewer agreed to conduct the interviews on a no-name, non-attribution basis. It was decided early on in the process that this would be the only way to obtain honest, open information to best serve the interests of ACPA's members without fear of repercussion. This approach clearly has some advantages and disadvantages. The major advantage is that it allowed for open, frank conversations about sensitive, challenging and potentially liable conversations with the people being interviewed. However and perhaps more importantly, it also allowed for the input of views from Air Canada Management, ACPA advisors, leaders from the Federal Government and other industry players who would otherwise not be able or willing to participate. The major disadvantage is that the content, information and recommendations are subject solely to the analysis, interpretation and communication of one individual. As such, a list of individuals interviewed has not been provided.

4.14 Just like a reporter who cannot reveal their sources to maintain journalistic integrity, it is also the interviewer's responsibility to protect those people who shared their recollection and views of what transpired, primarily during the last round of negotiations. The interviewer will present these findings across the country and will be available to answer questions so Members can be assured that a healthy approach was taken to address the concerns of the Membership about how the last round of negotiations played out. The intent is and never was to damn anyone or find a scapegoat upon whom to place blame. The intent is to as accurately and fairly as possible report the what occurred and apply that knowledge for the betterment of the Members of ACPA who are the pilots of Air Canada.

4.15 Since 1999, Mr. Carbone through his practice Team Works has delivered a professional consulting practice focused on leadership development, team strategic planning and

organizational development. Mr. Carbone is called upon by numerous companies, charities, not-for-profits and co-operatives to help them address leadership challenges and address organizational dysfunctions in a positive, trusted and collaborative manner. Mr. Carbone is a high integrity professional whose primary objective is to do what is in the collective best interests of the clients and organizations he serves. ACPA's Members are the client and Mr. Carbone has strived to the best of his abilities given the complexity of the situation to fairly, honestly and accurately provide a fair, unbiased and balanced report of what transpired with the intent to improve the likelihood of success for ACPA Members in the future.

5 Pilot Observations

5.1 ACPA, like any organization, is all about people. Most organizations consist of various personality types that possess very different backgrounds and behaviours. Teams are built so that organizations can utilize human talent to serve the philosophy, goals and objectives of the organization. The most successful teams are those whose members have complimentary and diverse skill sets, whose members are passionate about, talented in and execute on achieving the organizations goals.

5.2 Having worked with hundreds of teams in a wide range of cultures and organizations, it is extremely important to consider who is involved in the organization as the type of individuals need to be taken into account to optimize performance, operations and of course results.

5.3 The interviewer is experienced working in a wide variety of situations with numerous types of cultures in a range of companies, not-for-profits, educational institutions, charities, unions and co-operatives. This experience has helped him to understand the culture at ACPA. The interviewer has an education background studying psychology and organizational development at the undergraduate and MBA level and over 15 years working with hundreds of teams and organizations and is a certified practitioner of behavioural assessment tools to help understand the human dynamics.

5.4 During the course of working with ACPA, it is apparent that the Membership consists of a collection of intelligent, hardworking and engaging individuals. The majority of pilots are determined leaders who are highly analytical, detail oriented and possess exceptional ability to process and analyze data. Pilots have long memories about locations, technical details and minutia. While this is an extremely valuable asset for flying, it can also causes relationship issues for a membership of people with such dominant profiles.

5.5 The pilots who work for Air Canada are in the top tier of the profession in Canada. They are for the most part are fairly dominant, independent leaders who possess a balanced sense of control, adventure and freedom, who are not afraid to express their point of view. The vast majority encountered have a deep passion for flying, a tremendous respect for safety and a deep sense of concern for the hundreds of lives entrusted to their profession.

5.6 This leadership profile is a special one and is also the type of individual that a prudent person would want at the helm of an aircraft to safely transport their cargo of human lives to destinations for business and pleasure.

5.7 Although pilots come from many parts of the country with various backgrounds, it appears that there are several paths into the profession. One is through the military, where pilots are heavily trained in the art of aviation and learn to follow orders and chain of command. Another is through what could be called the "bush pilot" route where pilots work their way up from smaller airlines in various locales and areas around the country and the world. A third route might also be as offspring of pilots or the children of relatively well off parents who were in a position to provide the significant support required to engage in a career as an aviator.

5.8 Pilots are inquisitive, commanding and not afraid to question authority. Pilots possess the traits of military commanders, peacetime warriors and adventurous explorers. They are demanding intelligence gatherers who seek detailed knowledge necessary to make an optimal decision. Armed with information, they are confident and decisive. Lacking information will likely lead them to resist taking risks and encourage a protective or defensive posture. They can have short tempers and strong opinions. They are only prepared to follow strong, honest, principled leaders.

Pilots are trained to validate information, be detail oriented and ensure that their knowledge is extremely accurate and reliable. They demonstrate a desire or perhaps a need to be in command.

5.9 These traits are extremely useful for the profession and it may likely be part of pilot trained behaviour to minimize risk and danger to themselves, their aircraft and those under their responsibility. While such behaviours are extremely beneficial if not mandatory in the cockpit, running an organization with 3,000 individuals or organizing 12 peers with commandeering personalities can lead to some challenging relationship and management issues.

5.10 It is also interesting to note that pilots lead a very independent, self determined path in life. In their day to day work, pilots do not go to an office, warehouse or factory and report to a supervisor or manager to do their work. Instead, they bid for jobs independently, team up with colleagues for relatively short work assignments, travel around the world on their own schedule and lead a very independent working existence at the Company. Many of them work other jobs, run companies and have numerous degrees and various volunteer activities in which they engage. Other than their flying activities, where roles and responsibilities are clearly defined, understood and followed, pilots do not have to live under the same level of hierarchical organizational structure and conditions that the vast majority of employees are required to operate in. For the most part, like the majority of working individuals, they do not really have a "boss" to whom they report and have to submit. As a result, pilots have a unique duality of operating under the strictest of disciplined conditions while in the cockpit, but relatively extreme freedom and independence when away from it.

5.11 As long as pilots do a good job in the cockpit, they are relatively free to do and say what they think and feel without any rewards or repercussions to modify their behaviour. Other than their significant flying responsibilities and their peer relationships, they have very little accountability to others and to the Company. Without positive, inspiring and powerful Company and ACPA leadership that has the ability to engage and shape opinions for a group of such powerful people, pilots can easily evolve into a highly fragmented, opinionated and insensitive group of independent players, rather than a unified team. As one can appreciate, this is not an easy group to lead, especially in a union environment, and one that is impossible to control.

5.12 In many ways, ACPA pilots, while sharing a similar profession and are professional peers, are also are competing with one another for flights, promotions, type of equipment and seniority status. Unfortunately there have been limited growth opportunities at the Company, which restricts career potential. It appears that many of the pilots' natural competitiveness and innate need to be in control, combined with their frustrations from being locked into a fixed, externally controlled environment under financial pressure to reduce costs and maintain numbers, has caused them to turn their energy inwards. As one can appreciate, this can result in substantial internal tension and lack of unity.

5.13 During my many meetings, telephone calls and get togethers with pilots, there is no doubt that the vast majority of participants involved in ACPA truly believed they act in the best interests of their fellow pilots. That is not to say their perspectives weren't significantly different, as in many cases the perception of what was "right" for the Members may have been diametrically opposed. In many cases, some of the individual’s perspectives can be judged in hindsight to have been bad judgement, erroneous or sometimes even stubbornly narrow minded.

5.14 However, we all recognize that it is very easy to cast judgements after the fact when more information is available, when emotions are not as high, when time is plentiful and when the dust settles on the heat of battle. For the most part, it appears that the vast majority of ACPA leaders and Members operated with a very high level of integrity, forthrightness and determination.

6 Air Canada's Early History (1936-1995)

6.1 Air Canada has a long history, commencing on April 11, 1936 as Trans Canada Airlines (TCA), which was created by legislation of the Federal Government as a subsidiary of Canadian National Railway (CNR). TCA started with $5 million in government seed money to initiate operations. By 1964, TCA had grown to become Canada's national airline and on January 1, 1965, the name of the airline was changed from TCA to Air Canada.

6.2 During the 1970's, government regulations ensured Air Canada's dominance over domestic regional carriers and over rival Canadian Pacific Air Lines (CP Air). CP Air was subject to capacity limits on intercontinental flights and restricted from domestic operations, while Air Canada had been granted significantly greater room to operate.

6.3 In the late 1970's, CNR was re-organized and Air Canada became an independent Crown corporation. The *"Air Canada Act"* of 1978 ensured that the carrier would compete on a more equal footing with rival regional airlines and CP Air. This ended the government's direct regulatory control over Air Canada's routings, fares and services.

6.4 In 1986, CP Air took over operations of Eastern Provincial Airways and reverted to its original name of Canadian Pacific Airlines. In 1987, Canadian Pacific Airlines was sold with Quebec's Nordair to Calgary-based Pacific Western Airline (PWA). In 1987, PWA announced the new name of the merged airline would be Canadian Airlines International.

6.5 Deregulation of the Canadian airline market under the "National Transportation Act" in 1987 officially opened the airline market in Canada to more equal competition. During this time, Air Canada began acquiring new, larger and more efficient aircraft.

6.6 In 1988, Air Canada was privatized and in 1989 became a completed privatized company. This activity was led by President Claude Taylor and CEO Pierre Jeanniot. In the early 1990's, Air Canada encountered financial difficulties, partly as the airline industry slumped in the aftermath of the Persian Gulf War.

6.7 Hollis Harris was retained as the CEO who restructured operations, reduced management positions and in 1994, the Company was successfully returned to profitability. Hollis Harris was a trusted and respected leader by the vast majority of company members. He presided during a time of profitable growth and generally positive company relationships.

6.8 In 1995, Air Canada added 30 new trans-border routes and became a founding member of the Star Alliance.

7 ACPA Begins (1995-1998)

7.1 ACPA was certified in November of 1995 when the pilots of Air Canada left the Canadian Airline Pilots Association (CALPA). At the time, Air Canada pilots felt they did not have appropriate representation to meet their needs at CALPA and left somewhat in anger. The Air Canada pilots felt that while they were approximately 50% of the membership, they did not have appropriate representation to match their significant numbers and various leaders from of Air Canada pilots set out to establish ACPA. Unfortunately, this was not an amicable split and resulted in acrimonious relationships between Air Canada pilots and other pilot groups in the industry.

7.2 The initial ACPA structure and constitution was put together relatively quickly and mirrored that of other airline pilot associations. Members were wary of providing too much power to their elected Board officials. In ACPA's case, a significant addition was to ensure that the Members had additional control over the Association with the well-intentioned establishment of a "President" role to represent the national interests of pilots. The President was given a veto to protect Members from a scenario where the Board, known as the Master Executive Council (MEC) might go rogue and fail to operate in the best interests of the Members.

7.3 At the time, the approximately 1,600 members of ACPA were a relatively homogenous group of pilots who by accounts were relatively loyal and proud to be Air Canada pilots but also strongly felt they deserved significantly better wages and working conditions. The founders of ACPA sought to instil a "grassroots" philosophy in an attempt to ensure that Members were informed, in control and in the position to manage the organization by Membership-led initiatives.

7.4 From 1996 to 1999, Air Canada was led by CEO Lamar Durrett. During the second half of the 1990's the Company earned consistent profits, totalling $1 Billion for the 1997 to 1999 period.

7.5 In 1998, Mr. Bill Petrie joined ACPA to conduct labour relations with contract negations underway in March. A pre-strike vote with 97% participation was taken and 95% of pilots supported the possibility of going on strike. In September, talks broke off and a 13 day wage related strike took place. The strike was a civilized, professional approach led by MEC Chair Jean-Marc Bélanger with very little if any significant government involvement. A significant settlement with a value of an estimated 18.3% over two years was achieved and significant pilot gains were made. This strike action was deemed to be a success by accounts from Members and gave pilots an indication that strikes were an effective tool to produce results in the negotiations process.

8 Milton & Merger (1999-2001)

8.1 From 1999 onwards, Air Canada was led by Robert Milton. By many accounts, Mr. Milton was not beloved by the members of ACPA. Numerous pilots have conveyed their lack of trust and respect for Mr. Milton, who they felt was not a strong advocate of building an airline. The general perspective from pilots was that Mr. Milton was not an aviation builder; rather, he was more of a financial engineer solely concerned about maximizing shareholder value and possibly personal gain without adding any substantial value to the airline and perhaps to its detriment. Of course Mr. Milton presided over Air Canada during a difficult period and any leader in such circumstances would be prone to be second-guessed. Whether the preceding description of Mr. Milton's is accurate is a matter of debate. What does matter in this situation is that a significant number of pilots seemed to have shared a lackluster opinion of Mr. Milton and his leadership.

8.2 At the end of 1999, the Canadian Government relaxed some of the aviation regulations in order to encourage a freer market and possibly a consolidation of the Canadian airline industry. During 1999, American Airlines, in conjunction with Gerald Schwartz's Onex Corporation, launched a takeover bid of ailing rival Canadian Airlines and Air Canada. The Onex bid with American Airlines appeared to have the blessing of the Federal Government at the time and was backed by a Company Board who many claim was under the influence of the Federal Liberal government.

8.3 ACPA had opposed the Onex takeover bid due to the increase of debt and job losses. Canadian Airlines was operating unprofitably, while Air Canada had been a profitable company. After many months of discourse, the Superior Court of Quebec ruled the Onex offer illegal.

8.4 However, Air Canada management was pressured by the Federal Government to acquire Canadian Airlines. The Federal Government did not want Canadian Airlines to declare bankruptcy. Air Canada acquired Canadian Airlines in an attempt to consolidate the Canadian airline industry, to fight off the Onex bid and to appease the Federal Government, upon whom routes and regulations can easily drive the success or failure of an airline. ACPA pilots were strongly opposed to taking on Canadian Airlines' debt, losses and were concerned about adding a large contingent of additional pilots to their ranks.

8.5 Air Canada moved ahead and acquired Canadian Airlines. The merger made the combined airline into the world's 12th largest player. However, as the acquisition evolved, Air Canada obtained additional access to Canadian Airline's financial status and learned that the carrier was in far worse shape than they had previously expected.

8.6 In January of 2000, Air Canada and Canadian Airlines began going through the challenging activity of merging. ACPA pilots were at odds with Canadian Airline pilots as there was a major rift between the two groups regarding the method for determining seniority rankings. As pilots well know, seniority rankings affect compensation, opportunities for advancement, scheduling, pensions, type of equipment and other factors which have significant career and personal impacts for pilots. Relations were further exacerbated as Canadian Airlines pilots were represented by the Canadian arm of Airline Pilots Association (ALPA), the organization ACPA left on challenging terms a few years earlier. A cultural divide into "Red" pilots (Air Canada colours) and "Blue" pilots (Canadian Airline colours) evolved that unfortunately persisted for many years.

8.7 Mergers of cultures are extremely challenging. Many are either unsuccessful or leave scars that last for years. Best leadership practices in mergers require that leadership of the company must work rapidly to develop and execute an integration plan to focus participants from both cultures to build trust, respect and collaboration while simultaneously addressing various challenging contractual and staffing issues. This activity needs to be done as soon as possible so that any

necessary cuts and changes occur rapidly. This way the pain in a merger can be quickly addressed then to allow the remaining employees to then come together and work for the common good of the merged entity. However, this merger did not appear to be a strategic acquisition conducted for purely business reasons, but rather more of a forced marriage orchestrated with the involvement of the Federal Government. This activity, combined with Mr. Milton's lack of trust by the ACPA pilot group and the fact that actual operations took until December of 2001 to begin intermingling of Air Canada pilots and former Canadian Airline pilots resulted in significant hardening of views and animosity between the Red and Blue pilots. In addition, the seniority question was unresolved for many years, which only continued to allow the cultural divide to exist.

8.8 Although an expedited merger strategy was pursued, it was by most accounts unsuccessful as evidenced during the summer of 2000 where integration efforts led to flight delays, luggage problems and other customer frustrations as well as ongoing polarization of Air Canada's Red and Blue pilots.

8.9 In January of 2001, ACPA and ALPA presented their positions to Government appointed Arbitrator Mitchnick who would decide the formula for seniority. In April, Mitchnick delivered the rationale for seniority integration between the pilot groups. Neither ACPA nor former ALPA members are satisfied with the merger outcomes.

8.10 In April of 2001, ACPA becomes the common bargaining agent for both Air Canada and Canadian Airline pilots, but both pilot member groups were dissatisfied and at odds with one another.

9 9/11 and Bankruptcy (2001-2004)

9.1 Then, while this challenging merger activity is underway, the world and the airline industry is rocked by the terrorist attacks that took place on September 11, 2001. The world of consumer aviation changed dramatically that day. Both economic and flying activity decline significantly. The airline industries around the world begin to suffer reduced demand and revenues as travel volume declines and concerns about safety abound.

9.2 In December of 2001, a Tentative Agreement on work sharing with the company is reached and no pilots are laid off. With the global aviation market downturn and increased competition, Air Canada posts back-to-back losses in 2001 and 2002.

9.3 In July of 2002, the Canada Industrial Relations Board (CIRB) overturns the Mitchnick ruling on seniority, which re-aggravates the working relationship between Air Canada and former Canadian Airline pilots.

9.4 To resist the Onex acquisitions, Air Canada had employed a "scorched earth policy" and burdened itself with onerous contracts with a large number of its suppliers. Over time, these contracts combined with the industry downturn were taking their toll on Company profitability and viability.

9.5 On April 1, 2003, Air Canada management filed for bankruptcy protection under the Companies Creditors Arrangement Act (CCAA). Then, to further aggravate the situation, in April of 2003, SARS strikes, which causes further causes airline travel decline, especially for airlines in Canada due to the domestic outbreaks.

9.6 The ACPA pilots feel they have a strong responsibility to save the Company and decide to act to protect their positions. Pilots make the largest per capita labour concession to contribute to reducing Company costs. It was believed by many "Red" pilots that they provided the majority of concessions to keep the airline going. In June, a collective agreement was reached only a few hours before the court date to liquidate the company. The MEC chose to make significant compensation concessions ranging from estimates of 15 to 20% until 2006 in its efforts to avoid bankruptcy.

9.7 During this tumultuous period time, Mr. Milton stays at the helm as CEO and Mr. Calin Rovinescu operates as the Chief Restructuring Officer (CRO) for the Company.

9.8 During bankruptcy protection, the company was subject to two competing bids. One was from Cerberus Capital Management and the other from financier Mr. Victor Li. Cerberus was rejected as they had a reputation of changing existing employee pension agreements, a move strongly opposed by the CAW. Mr. Li had originally proposed a Board Veto and the Chairmanship in return for investing $650 million. However, he later demanded changes to the pension plan that was not in his original takeover bid, which was rejected by the unions and his bid was withdrawn.

9.9 Eventually, Deutsche Bank provided funding of $850 million for Air Canada if they could cut $200 million in annual operating costs in addition to the $1.1 billion that the unions agreed upon in 2003. This financing was concluded after last minute talks between CEO Robert Milton and CAW President Buzz Hargrove, who arranged the union concessions required to secure the funding.

9.10 In early 2004, ACPA members are incensed by potential layoffs for their members while a $20 million bonus is paid for CEO Milton and CRO Rovinescu. Company spins off various assets to raise capital and some goes to shareholders, which further frustrates ACPA and other Air Canada

unions.

9.11 The Company emerges from CCAA bankruptcy protection after 18 months on September 30, 2004 under ACE Aviation Holdings Inc.

9.12 In October of 2004, ACPA realizes a net gain of $31 million from the Company on CCAA damages. Relations between the Company and ACPA are extremely low. ACPA's MEC Chair communicates that the company will shamelessly attempt to exploit any issue, including seniority, to gain the advantage and that the MEC deplores the Company's behaviour.

10 Brewer, 2006 Agreement & Post Bankruptcy (2004-2009)

10.1 From 2004 to 2009, Air Canada was led by Montie Brewer, a former United Airlines Executive while Robert Milton operates as Chair.

10.2 In 2005, the industry is improving somewhat and a significant number of pilots are being recalled from furlough. The seniority issue between the pilots is still unresolved and Mr. Martin Teplitsky takes on the task to mediate the pilot seniority list.

10.3 During 2006, ACPA and the Company attempt to negotiate a contract agreement. ACPA is looking to regain what it gave up in CCAA negotiations. In July, Arbitrator Douglas Stanley is selected by ACPA and the Company to be the mediator. Although ACPA asked for a significant increase, Arbitrator Stanley concludes the positions are too far apart to bridge and the process moves into arbitration.

10.4 Arbitrator Stanley's award provides a 2% pay increase for the current year and a 1.75% for the next two. ACPA and its Members are dissatisfied with arbitration results. They feel ACPA Members made significant concessions during CCAA and have been treated badly by the Company while management, executives and shareholders who were rewarded handsomely.

10.5 In November, an Initial Public Offering raises $200 million for the Company. At the end of 2006, $2 billion is paid out to Company shareholders. This causes further resentment between ACPA members and the Company.

10.6 In 2007, an independent study by Dr. Martens of Concordia University indicates that while pilots are committed to their profession, they felt very little emotional commitment to Air Canada. Trust in management is extremely low and the sense of justice is at its lowest point ever.

10.7 Towards the end of 2007, ACPA begins working on Negotiating Committee to initiate activities for and hopes to establish real bargaining with the company. Negotiating Committee conducts member consultation and polling of members.

10.8 In 2008, the stock market collapses. High fuel prices and weak American economy results in significant decrease in travel demand. The Company's balance sheet is in a weak position and not well prepared to weather the storm during the upcoming global economic downturn. ACPA Members still have continued concern regarding pension funding and are in ongoing disarray regarding the seniority issue.

10.9 During 2008, the MEC and the MEC Chair considered embarking on a strategic alternative to take over Air Canada, known to the MEC as "Plan B" as he believed the Company was heading into bankruptcy once again.

11 The 2009 Negotiations (2009-2010)

11.1 In 2009, the MEC Chair publicly communicates the lack of faith in Company leadership and vision. In February, ACE distributes $800 million to shareholders, even though there are significant concerns from the unions about pension obligations and other financial concerns.

11.2 In March of 2009, contract negotiations begin and Calin Rovinescu becomes CEO. Since 2009 until the present day, Air Canada has been led by Calin Rovinescu. Mr. Rovinescu became the first Canadian President since Claude Taylor in 1992. Mr. Rovinescu was Air Canada's Chief Restructuring Officer (CRO) during their 2003 bankruptcy and resigned that year after the challenges with the unions at Air Canada. Many of ACPA's Members resent Mr. Rovinescu from his work during the CCAA restructuring.

11.3 The Company indicated that their total $2.85-billion pension shortfall (which grew from $1.2-billion in 2007) was a "liquidity risk" in its first-quarter report, and it required new financing and pension "relief" to conserve cash for 2010 operations. The company was obligated to pay $650-million into the pension fund but it suffered a 2009 Q1 loss of $400-million, so it requested a moratorium on its pension payments in 2009. The unions had insisted on financial guarantees before agreeing on a deal.

11.4 In May, all of Air Canada's unions structure a joint proposal to deal with the pension shortfall. A pension funding agreement is drafted, with the unions to receive shares in exchange for relief support. In June, the mediation process to negotiate pension funding and a new collective agreement begins.

11.5 Federal Finance Minister Jim Flaherty appointed retired Judge James Farley, who had presided over Air Canada's CCAA bankruptcy to mediate pension issues between the company and their unions and retirees. The contract with four of the Company's unions also expired around this time. Eventually, a Memorandum of Agreement (MoA) is agreed upon with a wages and benefits freeze and provides pension solvency funding.

11.6 The MEC Chair resigns in June of 2009 and repudiates the MoA he had only moments before previously signed as the MEC Chair. A member from Montreal acts as MEC Chair for the ratification of the mediated agreement.

11.7 In July the Membership approved the MoA with the Company and the contract is extended for two years with wages frozen. The Company raises $1 Billion in loans and labour groups obtain 15% of equity and a Board seat.

11.8 A new MEC Chair is elected in a secret ballot which was a bit contentious as an additional vote was cast by a Winnipeg delegate whose ability to cast a vote was in question. The new MEC Chair acts to rebuild relationship with the Company and the CEO. It has been conveyed by several people that the previous MEC Chair was more of an advocate of taking over the company or structuring a very different relationship by taking a more aggressive approach with the Company on behalf of the pilots. Company representatives confirmed that the actions of the previous MEC Chair while at the MEC alienated the Company at various levels throughout the organization. It is also well known that the previous MEC Chair disagreed with the new MEC Chair’s approach to focus on the more mundane but required collective bargaining process and it is public knowledge that the two leaders did not respect one another. The new MEC Chair begins the challenging process of rebuilding the relationship with the Company and is successful over time in building a relationship with the CEO. Some members are critical of this initiative and relationship due to their distrust of the CEO and the Company.

11.9 In the fall of 2009, the previous MEC Chair runs for President and is elected. He is an engaging, intelligent and creative individual. He is strong communicator who was open to innovative and possibly riskier alternatives and by most accounts was very likeable political leader. By various accounts it was felt that he did not believe that the Company was well run and thought that pilots could do a much better job or at least get a better deal with other management and owners. It is believed that during his time as MEC Chair and President he actively searched for various alternative structures to either realign relationships or bring on new investors who might restructure the Company with some expectation that the pilots would fare much better. The MEC Chair on the other hand was a steadier type of leader who felt it would be best for the pilots to work through the contract with the current Company leadership. Accounts are the MEC Chair was an analytical, thoughtful man who likely focused what he believed was the right thing without chasing more adventurous plans and was likely not focused on playing politics.

11.10 In January of 2010, the MEC met at Kananaskis for a Strategic Review where all of the MEC members endorsed a plan to build a partnership with management and the Company.

11.11 In May of 2010, the JAZZ pilots vote overwhelmingly to strike to back their contract demands. In mid-June, Federal Labour Minister Lisa Raitt, notified the House of Commons that the Government would introduce back-to-work legislation if there was a strike by JAZZ pilots.

11.12 In addition to applying pressure to JAZZ pilots, the Federal Government also had previously applied pressure to the Railway Workers who were subject to back to work legislation with arbitration and the Postal Workers who went into Final Offer Selection (FOS) to resolve their contract disputes. This should have been a strong indicator to ACPA that the Government would likely invoke legislation leading to FOS for unresolved labour issues between employer and employees for services deemed important to the public interest.

11.13 Social media was now making its presence felt around the world and was soon to become a major factor at ACPA. In July of 2010, the Air Canada Pilots Forum, an on-line chat community for pilots that was supported by ACPA is suspended due to legal liability concerns. The Forum had been running for several years and was meant to be an activity where pilots could share their views with their peers. Unfortunately, the tone of the communication was not always appropriate and in many cases could cause legal concerns for both Members posting information and for ACPA for supporting the activity. Due to legal concerns and in a desire to protect Members from potential liability, it was decided by ACPA's leadership to discontinue the Forum activities. Subsequently a private effort is established and the Forum becomes an independent venue where ACPA members can express their views without any input, control or moderation from ACPA.

11.14 The Forum offers pilots an opportunity to communicate with one another without any interference from ACPA or the Company. This activity can generally be a positive opportunity to network and share experiences with a group of pilots who are spread around the globe. It is also a venue for those pilots who are dissatisfied with the Company, ACPA and their colleagues to share their opinions and concerns. While only a small number of the pilots are actively involved, the messages communicated do reach into the pilot body and have an impact on the communications and culture for Air Canada pilots. Accounts of the Forum range from it being a very valuable activity that helps pilots stay connected, to it being a breeding ground for discontent, personal attacks and venting of anger that is sometimes done in an uncontrolled and potentially libelous manner. The Forum continues to operate to the present day and is a constant presence for the Members, ACPA, the Company and even the Federal Government, all of whom have indicated that they are aware of what is communicated on this medium.

11.15 Another issue is omnipresent...the retirement age for pilots, commonly referred to as Age 60.

Historically, pilots retired at the age of 60 and went on to retirement and received their pension and benefits. In August of 2009, the Canadian Human Rights Tribunal (CHRT) rejects the position that retirement at age 60 is justified and subsequent legislation allows pilots to work to age 65. This ruling and subsequent legislation causes further discontent among mid-level and more junior pilots whose career progression is being negatively impacted by older pilots continuing to practice their profession. This creates a perception of further disparity by the mid-level and younger pilots who feel that senior pilots are being further over compensated at their expense.

11.16 This presents a challenge to the makeup of the entire system. Pilots who are near the age of 60 and higher on the seniority list earn significantly more than a pilot who has just joined the airline. A senior pilot earns about what two or possibly three young pilots collectively earn. When pilots stay on longer, it prevents Air Canada from hiring other young pilots to join the Company and slows the rise in the seniority rankings which also reduces the pay for many pilots in the system. It also limits the abilities of pilots to move up in the equipment they fly as there are only so many large aircraft positions. It is understood that if one pilot retires, it opens up promotions for up to seven others. This also affects bidding for flights for less senior pilots as the higher level of seniority gives preference to their ability to select which routes to fly. As a result, when pilots are able to stay on longer, it has a significant negative impact on career progression for more junior pilots, due to the seniority system structure.

12 The 2011 Negotiations - NC1 (2010-2011)

12.1 In May of 2010, a Negotiating Committee (NC1) was formed. NC1 is made up of many knowledgeable and respected ACPA members with strong expertise in their respective fields. . NC1 would be supported by ACPA Labour Relations staff as well as by various external ACPA advisors in finance and legal counsel. NC1 reported to the MEC and the MEC Chair. The MEC Chair is a career pilot whose demeanor and approach seemed very rational, logical and professional. From most accounts it appears that the MEC Chair is a principled man who operates with honour and integrity.

12.2 The Association's Senior Director of Labour Relations had been promoted to the position of Executive Director since October of 2007 but was not actively involved in the Negotiating Committee. While by all accounts he was a hard working labour leader and an insightful man, many people interviewed felt he did not have the skill set or appropriate range of abilities to be the Executive Director of the Association. He was experienced as a labour relations negotiator but it was felt by many that his views seemed to be from a previous era between labour and management where confrontational bargaining activities were viewed as necessary and required. However, it is now a more common best practice by most North American union leaders to take a more collaborative, win-win approach towards negotiations and long term company relationships.

12.3 NC1 was perceived by many of ACPA's members to be over-weighted with a higher percentage of senior wide body pilots led by Western Canada representatives. However, given the small number of people on such a committee, it would be almost impossible to obtain the best skill set and a group that was totally representative of the pilot constituency.

12.4 At the outset, relations between the ACPA and Air Canada negotiators were relatively polarized. Both parties were wary of one another and had good reason to be cautious given the past labour relations activity over the last few years. As one might expect, both negotiation teams were guarded about sharing their positions and exposing any vulnerabilities. Both negotiations teams were adamant about protecting their own group's best interests.

12.5 The Company was primarily interested in efficiencies achieved through pension reform, group pay, a low cost carrier, scheduling efficiencies and labour peace. ACPA members were primarily interested in improving compensation and pensions with others well down the list. The Company was losing significant market share and employment opportunities to competitors. In the period from 2000 to 2010, Westjet grew by 940%, Air Transat grew by 450% and Air Canada only grew by 10%. The Company believed it had to make significant changes if it was to thrive.

12.6 However, after several meetings and independent discussions it became apparent to both parties that the existing contract was an antiquated document that cost both the Company and pilots the ability to optimize the total potential of the contract and negatively impacted both positions. It appeared that the rational course of action would be to virtually start from scratch and totally rebuild the contract document from the ground up.

12.7 After many months of debate, the ACPA NC1 agreed with Company negotiators that working with the current contract seriously impacted the Company's ability to compete and meet the demands of a major global airline. In the fall of 2010, the NC1 negotiators felt that a major rewrite of the contract was necessary if the significant financial gains desired by ACPA's Members were to be optimized. NC1 and Company negotiators began the challenging and time consuming task to start from ground zero and build a new, comprehensive contract that would allow both parties to optimize their interests.

12.8 The leader of NC1 was acknowledged by those who worked with him to be a very intelligent and precise individual with a substantive capacity to analyze facts and data. Both Company officials and NC1 team members indicated he had a tremendous mental capacity, experience and ability to comprehend the complex information in the contract and synthesize it in a manner that many others with lesser capabilities could not. Representatives from the Company were clearly impressed by his ability to assimilate information, provide context and generate solutions that both met the needs of the pilots and the Company. From interviews and information conducted it appears that the NC1 team were committed to doing the best possible job for their fellow members.

12.9 The NC1 team was undoubtedly some of the best and most knowledgeable players ACPA had to offer. Many individuals interviewed acknowledged that the NC1 committee was a solid team who knew more about the various aspects of the business and the airline than one could hope to have on a negotiations committee. Several Company members also disclosed in separate interviews that the members of the NC1 committee although overshadowed by Company financial resources, were an exceptional team who were more than able to present the pilots positions and negotiate in the pilots best interests.

12.10 Having interviewed the majority of the committee members of NC1, it was apparent that all of the individuals, from both staff and pilots dedicated several months of their lives to negotiate an agreement that they truly believed was in the best interests of the entire pilot group while helping the Company achieve its objectives. While one could argue whether the Tentative Agreement (TA1) they produced maximized compensation and was equitable across the pilot membership body, there is little doubt by the interviewer that the leader and members of NC1 operated in a manner of high integrity, respect and seemed to have done what they sincerely believed was in the best interest of all of their colleagues.

12.11 It is uncertain whether NC1 disclosed enough substantive information to the MEC during the negotiations period. While NC1 members clearly felt that the amount of information shared with the MEC was more than adequate, various members of the MEC gave different opinions. Some indicated that the briefings were at a very high level and did not go into depth, while others indicated that the level of detail provided by NC1 was more than sufficient for the MEC. It is interesting to note that at least on one occasion that NC1 spent several days debriefing the MEC on the terms and changes taking place during the negotiations.

12.12 During the period of time when NC1 was negotiating the contract, this appeared to be a window of opportunity both economically and in the airline industry that allowed ACPA to maximize total compensation. Both NC1 negotiators and the Company indicated that the timing of TA1 couldn't have been better for ACPA members. The economy was relatively good, Company performance was improving and the management at Air Canada wanted to come to a deal with pilots who they recognized as being leaders in the company before finalizing terms with other employee groups.

12.13 Of course, taking the political situation into account should have been something that leaders at ACPA should have recognized was an issue. The Federal Government was a Conservative one who had long been using its power to minimize the influence of unions across the Country. The political landscape was not friendly to unions, much less a union of what the general public perceives to be very well compensated pilots.

12.14 Interviews with ACPA advisors from government relations, legal counsel as well as with industry representatives and leaders from the Federal Civil Service confirmed the belief by the Federal Government that ACPA pilots are well respected individuals within the government for their leadership in safety and security. However, it was confided that their perception is that ACPA pilots while wonderful individually, appear to act as an entitled collective whose demands for

wages exceed what common sensibility might suggest. While no one doubted the capability of pilots and their contribution to aviation safety and security, the general public may be envious of pilots perceived job activities, lifestyle and compensation. Politicians are political animals and the bureaucracy reports to them. It's very challenging for any politician to support better wages and working conditions for what the Government may feel the general public wrongly believes are extremely well paid, globetrotting pilots who regularly travel to exotic destinations on the Company tab who they believe only work 15 or 20 hours a month and all earn hundreds of thousands of dollars with a golden retirement package. While the general public are unaware of the significant level of training, testing, stress and challenge that pilots face in their profession, this may be the Government's view of the public's perception and in politics, it is perceptions that matter. Given this political perspective, it was highly unlikely that pilots would have been able to generate much in the way of political support from politicians and their civil servants in Ottawa. ACPA leadership should have recognized this fact and as much as politicians are happy to meet and greet, it is unlikely that politicians or civil servants will use up much political clout to help pilots and that the power in the political realm is not likely to favour ACPA pilots. This should be kept in mind for future government relations and public relations activities.

12.15 Over the last few years another group within ACPA was growing in numbers and presence. In addition to the Red pilots (original Air Canada pilots) and the Blue pilots (former Canadian Airline pilots) there was now an emerging group, eventually nick-named the "Green" pilots, who consisted primarily of mid-career and younger pilots who had lower seniority numbers and some of whom had recently been recruited to the Company. Interestingly, many of these pilots had many, many years of experience flying with other airlines and were joining the Company both at a later stage in life than when pilots previously joined airlines. Unlike the Green moniker suggests, the majority of them possessed significant experience working at different companies and organizations. This demographic was not generally affiliated with either of the two airlines and had their own special needs, issues and concerns. People in this group tended to be a somewhat older cohort with young families who had a higher need for income at a time as the costs of living were increasingly high relative to past generations of starting pilots. The "seniority" path of the past allowed historically younger pilots who tended to be single to come in and get by for a few years while they put in the miles needed to move up the seniority and salary paths. However, this new Green group was older than in the past and had more obligations than their predecessors. They tended to be more vocal about their concerns and their perceived inequity in the situation with their peers than previous cohorts. The group was also highly technology literate and many were very comfortable communicating actively via social media.

12.16 Although the interviewer is by no means a contract or aviation expert, the views of the vast majority of people interviewed regarding the contract were quite emphatic and consistent. Many felt that it is extremely likely, if not a certainty that the pilot's contract is the most complex, detailed and challenging employment agreement in Canada. The contract also reflects an interdependent relationship where changing one part or aspect of the agreement would have an impact at another portion of the contract that could affect multiple parties and inter-related activities. The existing contract was an outdated, convoluted agreement built upon many years of agreements, negotiations, grievances and modifications. Individuals with years of expertise working with the contract from all sides and roles felt that it was a challenging document, subject to interpretation and had likely outlived it's initial design and that compromised both employee functionality and organizational performance.

12.17 NC1 and Company negotiators engaged in an incredibly intense and demanding negotiation process which lasted for approximately six months. During this time, the two negotiations teams worked long days, likely averaging 12 to 14 hours per day for six and sometimes seven days a week. The negotiations were held in Toronto and many of ACPA's negotiators were from other locations and spent many months of their lives in hotel rooms away from family and friends for

tremendously long periods of times. They truly sacrificed a significant portion of their lives to work on an agreement that they felt would optimize the benefits for the collective.

12.18 During this time the two negotiations team started to develop a respectful collaborative discussion and moved from a more "positional" bargaining style to that of "interest based" bargaining. Positional bargaining is a more rigid, definitive and sometimes adversarial type approach where demands and counter demands are made by both parties. This traditional union bargaining style has both merits and disadvantages.

12.19 Interest based bargaining (sometimes referred to as "integrative bargaining") is a more collaborative approach that encourages both parties to separate personalities from the issues, focus on interests, generate options and then base results on some sort of criteria or objective. The thinking is that taking this route allows both parties to consider the other parties needs and look to make trade-offs that can meet the other parties needs or interests in exchange for other concessions that meet their needs.

12.20 Depending on the value of various issues, interest based bargaining can lead to a higher maximum economic utility for both parties. However, the potential for abuse by one party who is not acting in good faith to capitalize on the openness of another does exist.

12.21 Recent thinking, whether in union negotiations, divorce or purchasing from suppliers indicate that interest based bargaining generally leads to a more successful outcome, especially if the parties need to continue in an ongoing relationship in the future. Positional bargaining can achieve a better result for one party who has leverage over the other, but it usually results in a disenfranchised negotiating partner who carries resentment into the future relationship.

12.22 The MEC Chair was in fairly regular communication with CEO Calin Rovinescu and maintained a respectful relationship with him. While some people may have felt this relationship was inappropriate for an MEC Chair, it could be argued that this approach is probably most appropriate to ensure leaders of both organizations have a relationship and are able to communicate on topics of major need if and when required.

12.23 The MEC is a political body voted in by geographic representation. Although once elected each MEC representative is supposed to work in the best interests of the national membership, in reality, each base will have to cater to some degree to the regional political constituency that voted him or her in to office. Unfortunately, ACPA's regional orientation has led to a lack of collaboration, unity and solidarity. In many ways, it's a microcosm of Canada. Similar issues ranging from the unique Quebec culture, Toronto centric dominance and Western Canada's sensibilities are all part of the fabric of ACPA. The MEC Chair was viewed by many as being pro-Vancouver, pro-Senior pilots and possibly pro former Canadian Airlines.

12.24 Concurrently, the President was working on building relationships in Ottawa with various politicians and government civil servants. He was exploring various creative alternatives and structures to organize the Members and engage with the Company on. At the time, he was working on completing his executive MBA at The University of Western Ontario in London while serving as the ACPA President. Completing an MBA is an arduous task requiring a tremendous amount of time and energy. It may be that the President conceived some of his thinking regarding innovative structural ideas and financial concepts during his studies which he raised as possibilities for ACPA.

12.25 Unfortunately, it appeared that the MEC Chair and the ACPA President were not in alignment on a common, appropriate strategy and the type of relationship to have with the Company. Accounts indicate that that they were also at odds about how to manage the entire situation with

one another and the Company. The MEC Chair felt that the best approach was to continue to negotiate employment terms and conditions to benefit ACPA Members through the NC1. The President felt that a more innovative solution to either extract greater equity value from the Company, possibly consider conducting a pilot-led takeover of the Company or perhaps establishing an independent pilot contracting approach with the Company would deliver the most value to the pilots of ACPA.

12.26 Having a dual leadership structure certainly exacerbated the challenges in managing the situation. It is highly likely that ACPA's energy instead of being focused on how to best negotiate and deal with the Company was instead focused on internal discussion and political debate of what to do and who will lead. A lack of an appropriate structure of accountability and chain of command resulted in organizational confusion, lack of consensus and political disarray. Best practices for leadership and strategic planning demands a concerted, common direction rather than having ongoing leadership debate and disagreement regarding direction that results in limited or action at cross purposes. While one might expect two leaders and the elected Board of the MEC to resolve matters in a relatively unanimous way to optimize results, it's also human nature for determined leaders to challenge one another for dominance and leadership until one is chosen or defeats the other. Unfortunately, the leadership model in place under the current structure and governance allowed continuous conflicting activities without a structure that allows for some sort of resolution.

12.27 It is uncertain whether the MEC was fully aware of the significant level of changes in the contract negotiations that were taking place under NC1. Members of NC1 clearly felt that they communicated the nature and scope of changes to the MEC. However, interviews with the MEC members seemed to indicate that some of them were not aware of the depth of changes contemplated in the TA1, while others felt they had more than enough information of the general terms and the nature of change coming. It is important to note that members of the MEC did have significant time and access to the members of NC1, they were presented various briefs on the phone and in person and it's the interviewers belief that they should have been able to understand the magnitude of the coming changes under discussion in TA1.

12.28 However, it is clear that the level of coming contractual change was not communicated to the Membership in any significance during this period of negotiations. This communication should have been the responsibility of the MEC and likely the MEC Chair. There are some who claim that negotiations need to be conducted in absolute secrecy due to a variety of business and competitive reasons. However, it appears that the cost of doing so is much more costly or risky than sharing information with its Members. In hindsight, it is clear that a lack of Member communication was a major strategic error in judgement, that it caused significant pilot concerns and uprising when the TA1 was released prematurely and needs to be improved significantly in future negotiations.

12.29 The MEC Chair was at some level aware of the significant changes under consideration in the negotiations and ideally, would have been able to communicate them at some level on an ongoing basis to Members. Members wanted to be kept aware of the changes and expectations in the contract negotiations. Ideally, Members should be informed by ACPA regarding what is both realistic, practical and expected to occur before, during and after the contract negotiations. However, given the political instability, having a relatively split MEC with the conflicting dual leadership structure, it was likely going to be a major issue for the MEC Chair to inform Members of the magnitude of changes coming unless they were a certainty. In addition, negotiations with the Company are confidential and unless approved by the Company in advance, it would be a breach of confidentiality. However, the "tone" of the communication emanating from the MEC Chair's office could have started to convey the coming changes.

12.30 It is reasonable to take a position that it was wise either politically or organizationally to raise any concern with Members until they needed to know. This is compounded by the fact that the President was investigating other innovative and riskier options that might also warrant information communication to the Members should they proceed. As such, the decision to keep Members uninformed about the likely level of change coming was appropriate, but in hindsight it would be best if a process was in place to keep Members abreast of the discussions. ACPA has an obligation to keep members informed about major activities that would affect their contract. In future negotiations, there should be some sort of a consistent, regular process in place to communicate significant activities to Members and to allow ACPA's leaders to assess Members reaction to proceedings.

13 The TA1, Road Show & Recalls (2011)

13.1 In the spring of 2011, after over six months of intensive negotiations, NC1 and the Company came up with a Tentative Agreement (TA1). By this time, the NC1 team members had given as much as they felt they could to come up with what they all clearly felt was a good agreement for pilots and met the Company's needs for change. NC1's primary focus was to maximize earnings for pilots and to allocate them as fairly as possible. As one can appreciate, it would be impossible to have everyone in ACPA be satisfied with the results of negotiations. However, NC1 members truly felt satisfied that they negotiated the best possible agreement, secured the maximum amount of financial reward and provided an equitable package for all of the various pilot stakeholder interests.

13.2 The Company negotiators indicated that they had also been pressed to the limit during the intense negotiations efforts. While the Company has greater resources than ACPA, they too had invested a tremendous amount of time, effort and energy to come up with a mutually developed and negotiated agreement. In discussions with various Company members involved in the negotiations and Executives who oversaw the process, they clearly developed a strong sense of respect and collaborative effort with the NC1 team. Many of them being pilots also felt that they put together a very sound agreement that would benefit both the Company and the pilots. Company representatives clearly indicated that they produced an agreement that delivered as much value to both parties as possible.

13.3 It was conveyed by Company representatives that the CEO had to obtain Board approval to provide approval for TA1 and was challenged when he did so. The CEO used his influence and pressed his Board to provide support for the TA1 with the expectation that the Members of ACPA would accept the agreement.

13.4 The TA1 was distributed to members of the MEC and a debriefing with the MEC was scheduled. A copy of the TA1 sent to Toronto LEC Chair Geoff Wall was prematurely released by one of the Toronto Counsellors to one or more pilots not authorized to receive copies. This copy was in turn shared with others and quickly spread to a significant number of the Membership.

13.5 The President and Executive Director did not attend the two day NC1 debrief presentation of the TA1 to the MEC as they were at another function. It is believed that the President came out against the TA1 and was quite vocal about his perspective in various meetings, discussions and on the Forum although he did not have the benefit of discussing the details with the negotiating team.

13.6 TA1 contemplated some very significant changes for pilots that the Company deemed necessary to compete and grow in the competitive airline travel business. Air Canada had not increased pilot numbers for many years, while other carriers from Canada and abroad have acquired growth opportunities in the Company's market area. The Company determined it needed to establish a low cost leisure carrier to allow Air Canada to compete for tourism destination business. The revision of the pension plan to allow for Defined Contribution for newer hires as well as evolving the Defined Benefit plan for more senior pilots was another significant contract change. Safety regulations in terms of flight & duty times as per the Canadian Airline Regulations (CARS) instead of the Air Canada standard (contract) for the low cost leisure carrier was another major change. Numerous other changes in various areas were also re-evaluated, revised and rewritten. These changes were discussed, debated and negotiated over a period of many long, protracted debates.

13.7 It is believed that an ACPA Member reviewed the TA1 and prepared their own summary version

known as the "Coles Notes". Copies of this opinion summary were distributed to various individuals and pilots and once again spread to the Membership. NC1 members felt that this summary did not accurately reflect the content of TA1, had a negative focus on the TA1 and prejudiced the Members about the TA1 before the NC1 had an opportunity to present their perspectives to the Membership. Of course any Member is entitled to communication of their position, but NC1 never briefed the author. Although NC1 did subsequently have newsletters, emails and a road show with the Members, much of the negative criticism came before they had an opportunity to review the TA1 with them.

13.8 The TA1 was a major rewrite of the past contract. By accounts from members of NC1 and the Company, the original contract had wording and content that was significantly improved in favour of pilots in TA1. However, it is highly likely that the vast majority of pilots had never read the previous contract in any depth. It is a major document that would take days if not weeks to read, comprehend and consider. The "Coles Notes" summary was taken as gospel by many pilots who understandably did not take the time to read the actual agreement. This may have predisposed a large number of pilots to take a less than favourable view of the TA1 without actually considering its merits and weaknesses.

13.9 Electronic media and social media began running rampant. Pilots who felt they were negatively impacted by the TA1 or felt it was not the appropriate direction took to the airwaves and began raising a furor. Pilots who were either neutral or felt they benefitted from it likely remained quiet and likely did not influence those without an opinion. It's probably somewhat safe to assume that it was primarily the younger cohort of "Green" pilots who felt they were not being treated fairly by TA1. This Green group was a much bigger share of the membership than might have been anticipated. As one can appreciate, they were justified in many of their opinions and had a rational argument that the nature of the relations between senior and junior pilots was changing. The likelihood of the future remaining constant with healthy retirement options was perceived to be less likely. Many of them felt that since they were flying the same crafts and having the same responsibilities that compensation should be more equitable. They believe it was reasonable for them to feel that such a significant difference in compensation should not be as vast and inequitable as it is. It is also likely that this group had the communications and social media skills to disseminate information and opinion rapidly to their fellow members and enroll them in their viewpoint.

13.10 The NC1 team officially reviewed the terms and agreements of the TA1 with the MEC on April 5-6, 2011. However, by that time the TA1 was already in the hands of the Members. The MEC only had received the TA1 for a relatively short period of time before the discussion and debate that ensued. At the same time, the Members who had obtained leaked copies of the TA1 were likely inundating their elected officials by raising their issues and concerns at the MEC, quite likely as the NC1 presentation was in progress.

13.11 After reviewing the information presented by the NC1, the MEC of the day was unable to come up with a clear recommendation for Members to accept or reject the TA1. When it appeared that the MEC vote to support the TA1 was likely going to be a tie and the MEC Chair did not cast a tie-breaking vote, as the Chair was entitled to do. The MEC unanimously decided it would not make a decision and that it would be in the best interests of ACPA to allow the Members to decide and the MEC did not provide an accept or reject recommendation. While this decision may have had some strong merit in the "grassroots" philosophy which suggests that the Members should determine the fate of the organization, it also was an abdication of leadership and responsibility that the MEC had to its members. The MEC should have come up with a clear decision to accept or reject the TA1 as they had the direct opportunity to evaluate it with the NC1. The MEC should have continued debate and discussions until a strong consensus was achieved one way or another. Not making a decision to either support or reject the TA1 created dissension, suspicion

and distrust with the Members about the agreement, about their leadership and about the Company. Negotiating a contract is the leading priority of ACPA and the MEC as the governing body made a serious fundamental error by not providing a recommendation to its Membership.

13.12 The TA1 was to be posted on the website on April 8th and Road-shows began during the week of April 11th, 2011.

13.13 A series of meetings across the country were being scheduled with the ratification vote to take place somewhat concurrently. While the informal communications activity about the TA1 was taking place, the official process to share information about it had yet to take place and by many accounts the rumour mill and pilot anxiety about the NC1 was spinning out of control. Plans were hurriedly made to bring the NC1 Committee to meet with Members at membership meetings across the country. Unfortunately, when these events began, NC1 was presenting to an emotionally charged group of pilots, many of whom who were extremely upset with what they had heard about the TA1. They were concerned about the significant amount of contract changes and many shared that they did not have an open mind to hear about what NC1 had negotiated, but came with a pre-conceived negative bias towards the TA1. Once again, with hindsight, several pilots have communicated that they had been wrong about TA1 and jumped to negative conclusions before understanding the depth and challenges of the TA1. Many pilots expressed their opinion that had they known what it actually contained that they would have changed their vote from against it to for it. Like many political functions, it may also be that the silent majority did not attend the road-shows and that special interest groups with strong, vocal opinions took the floor.

13.14 After meetings in Vancouver and Winnipeg, the first of two meetings were scheduled in Toronto. Toronto, with the largest number of pilots and a higher percentage of younger pilots in the region, had a very disconcerting and unfortunate tone. Copies of the "Coles Notes" were being handed out to Members as they entered and many attending felt this was an official summary document by NC1. It is understood that two younger Toronto based pilots who subsequently both became MEC Members, were in the back of the room soliciting recalls while the NC1 members were attempting to present the contract to the Members. The meeting took a violent and angry tone where concern for people's safety became an issue. Interestingly, the members of the NC1, Company negotiators, Company executives and many other pilots interviewed from various seniority levels clearly felt that the TA1 had gone well beyond what they felt was reasonable to provide a variety of compensation activities that would provide significant benefits for pilots who were lower on the seniority list and typically younger individuals. However, the majority of younger pilots either did not agree with this perspective or were not fully briefed on what the compensation terms and amounts were.

13.15 In a meeting in Montreal, the local LEC met immediately in advance of the presentation by the NC1. A prolific Member introduced a motion to indicate that the LEC did not endorse the TA1, even though he was not on the LEC at the time. The LEC Chair then shared a negative opinion of the TA1 to the Montreal Members immediately before the NC1 had a chance to present their perspective. This predisposed the audience towards a negative bias against the TA1. The timing was not appropriate and it was regrettable that the NC1 committee should have had the opportunity to present their perspective or at least some warning before any final opinion was given by the LEC.

13.16 A subsequent meeting in Toronto was cancelled due to concerns for safety and professionalism for ACPA Members. Undoubtedly both the Company and the Government became aware of these events.

13.17 While definitely not equal to what very senior pilots would earn, both NC1 and the Company

negotiators claim to have delivered significant earnings opportunities for the mid and younger pilot demographics. The seniority system is well entrenched in the airline industry and especially so in legacy airlines. While less junior pilots receive reduced earnings while in the first few years of their career at Air Canada, within a few years, the earning rise substantially and become more equitable with senior pilots. While the improvements made in TA1 might not have been apparent exclusively in wages, it was the opinion of both the TA1 team and the Company negotiators that various arrangements made in the TA1 would allow younger pilots to make significantly more than the past, even though the smaller planes and routes they tend to fly are not very profitable. Of course it is up to every pilot to determine whether a contract is favourable to them, however, from various perspectives, it appears that the understandable concern by pilots with less seniority that they were being disadvantaged may have been somewhat overestimated.

13.18 Of course pension plan changes also played a significant role. The next generation pilots were going to receive a Defined Contribution plan whereas existing pilots were the beneficiaries of a less lucrative Defined Benefit plan. Many felt that the next generation under the Defined Contribution plan was not equitable and that once again the senior pilots who were already very well paid and had very good pension benefits were getting more than their fair share from the next generation.

13.19 Both the NC1 negotiators (staff and pilots) as well as the Company negotiators confirmed that they all felt that the TA1 delivered the maximum amount of financial compensation possible for ACPA Members. While some might disagree with this statement, it appears that the TA1 was very lucrative and significantly more than what was ultimately finalized. However, it was also obvious that the allocation was not perceived to be equitable amongst the pilot Membership body. Both NC1 and Company negotiators indicated that the interest-based bargaining approach they engaged in resulted in benefits for the Company and maximized the total financial package for ACPA Members. It's quite likely that the allocation of the financial amounts could be shifted from one pilot group to another as primarily determined by the ACPA negotiators. The Company would likely have been unwilling to provide any greater overall financial compensation to ACPA Members, but it is believed that they would have been quite willing to "shift" some resources from one group to another to address real or perceived inadequacies by the Members of ACPA.

13.20 There is a percentage of ACPA Members and leaders who possess a strong, militant and negative bias towards the Company. This is likely to occur in any union or group with the numbers and history of a legacy airline. While remaining skeptical and wary at some level is a healthy way to operate, a minority of the ACPA Membership has extremely little trust, respect or allegiance to the Company. It appears that a small minority of pilots possess an extremely negative bias towards anything from the Company and are both vocal and vindictive in their relationship with Air Canada. While for some there may be legitimate reason for a negative attitude, given some of the legitimate and perceived past leadership activities at the Company. However, as a whole, engaging in a negative, combative attitude during periods of negotiation has and would alienate the relationship with the Company and likely continue to result in less than optimal results for all ACPA Members in its contract negotiations process. This philosophy was supported by Canadian Labour Congress Vice President Hassan Oussef who stated at the MEC Orientation in the Fall of 2013 that best practices in labour negotiations are to negotiate your own deal and ensure the long-term value of the relationship with the employer is kept intact.

13.21 The Membership vote to ratify the TA1 which was scheduled to occur between April 15 and April 27, 2011 is cancelled by the MEC.

13.22 On April 15th an initiative is launched to recall the MEC Chair. He steps back as MEC Chair pending the outcome of membership vote on the recall petition and another elected official agrees to be the Acting MEC Chair. Likely reasons for recall are perceptions of being too close to the

CEO, the perceived terms of the TA1, and perceived favouritism towards Western Canada and pilots with greater seniority.

13.23 On April 19th, at a Special MEC Meeting, with NC1 in attendance the MEC and staff discuss the situation. NC1 members indicate that the Company is not likely to change its position on the agreement and that any changes would result in a significant financial loss to ACPA Members as economic conditions had moved against the Company since the TA1 was negotiated. NC1 also indicated that the Company would no longer make any language changes, as numerous ones had already been conducted, but that the Company would be prepared to discuss some of the irritating issues. Although not in the Minutes, it is understood that NC1 strongly felt that this was the best offer they could obtain and that they were no longer prepared to engage in significant negotiations any further as efforts would be futile. The MEC reconvened the meeting on April 20th and resolved to have the NC1 return to the bargaining table to address several concerns with: LCC, New Hires, Pension, Duty Regulations and Pay & Miscellaneous items. At that meeting the MEC also voted to recall the MEC Chair as per the recall procedure invoked.

13.24 On April 29th, the MEC convenes and meets once again with the NC1. NC1 took its list of concerns to the Company and attempted to obtain some concessions, but reported that there was nothing more the Company was prepared to do and that the TA1 was the best deal they were prepared to offer. In a subsequent conference call between NC1 and the Company, the Company advised that it had already committed to a "rich" deal for the pilots. However, they agreed to stand by it and expected the pilots to vote on it.

13.25 On May 1 of 2011, the MEC Chair is officially recalled and removed from office. NC1 continues to communicate their perspective about the TA1 to the membership and answer thousands of questions and inquiries addressed by email.

13.26 On May 6, CEO Calin Rovinescu, on extremely short notice, comes to address the MEC. According to the MEC Minutes the CEO informs the MEC that if the TA1 is not ratified, that the Company would not continue where negotiations left off and that it would go back and start over with fewer funds to inject due to $800 million in higher fuel rates. He communicated the need to establish a low cost carrier to allow the Company to effectively compete and grow new jobs for "sun" destinations. He confirmed the migration to a Defined Contribution for pilots who have yet to be employed. CEO Rovinescu also stated that he did not envision going back to the old way of bargaining and that there was a high level of trust developed between NC1 and the Company and would like to see that collaborative relationship continue. He once again requested that the MEC actively support the TA1. During questions with the CEO, he confirmed that once the TA1 was ratified that "irritants" could be fixed and he also communicated that the NC1 did not really have a chance to present the case before the road show and were undermined before they even started. He acknowledged the years of mistrust embedded in the culture and wanted ACPA to communicate to its members to support the TA1 and let them know that the Company would create jobs and improve progression through fleet types.

13.27 The CEO had come to ACPA to explain his perspective and clearly made his view heard. He informed the MEC that this was the best and final terms that the Company would provide. He confirmed that conditions had changed for the worse since the negotiations but that the Company would be prepared to live up to its agreement. The likely subtext was that if the MEC and Members rejected the TA1 that any subsequent agreement would not be nearly as lucrative for the pilots.

13.28 Despite the request from the CEO, the MEC once again does not vote to endorse or reject the TA1. It does not appear that any official communication was sent from the President or the Interim MEC Chair regarding the CEO's position. Communicating to the Members the CEO's

position as stated to the MEC at this critical point in the decision-making process would have been appropriate to keep the Members informed of the Company's position.

13.29 At this meeting, a motion is put forward for the MEC to hold a Member ratification vote to commence on May 9th for a 10-day period with a recommendation to accept the TA1. This vote is tied at 6 for and 6 against and is not passed. The Acting MEC Chair does not vote to break the tie. A subsequent motion is passed which resolves to hold a ratification vote on May 9th for a 10 day period. The MEC does not provide a recommendation for Members on the TA1 for the second time.

13.30 NC1 Chair and Labour Relations staff reiterates that if ACPA attempts to renegotiate with the Company that the starting point would be much lower than what it was six months ago. The Company expressed its concerns that due to the recall of the MEC Chair, that it no longer knew who it was dealing with and with this uncertainty was no longer prepared to talk and wanted the deal sent out to pilots to be voted on. Labour Relations staff also explained the Company acknowledged that if the TA1 was rejected that they would defer to the provision of the Canada Labour Code. NC1 Chair once again asked the MEC to vote and endorse the TA1.

13.31 Early in the month of May, several newsletters are sent by the NC1 to the membership in an attempt to communicate the TA1 specifics to the Members. Previous communications sent from the MEC Chair on the negotiations provided some information on negotiations activities, but had very little on expected content and did little to set expectations about the agreement to the Membership.

13.32 The Membership votes over a 10 day period from May 9 to 19th and rejects TA1 by a vote of 67% against and 33% for. In many ways, it's no surprise as the number of changes, the negative PR, the variety of allegations by Members against NC1 and MEC members are rampant which causes pilots to vote out of uncertainty and lack of information. Without direction and leadership by the leaders of the MEC at the time, the Members vote to reject the agreement. Undoubtedly, there were many reasons to vote against it...low cost carrier...pension...flight & duty times...low pay for starting pilots...geographic concerns...etc. However, it's likely that the biggest reasons for the lack of support was the magnitude of change, the perceived inequality between the pilot groups and the lack of knowledge and communication needed to prepare the pilot group of the coming changes in advance of release. However, the pilots have voted not to accept the TA1, which was very lucrative from a financial perspective and not likely to be surpassed in the near future.

13.33 Concurrent with the TA1 vote by Membership, additional LEC recalls are voted upon removing several members who were known to have supported TA1.

13.34 As can be expected, ACPA Members and MEC are in a period of uncertainty. The MEC is divided and without a full-time leader. The NC1 team resigns and feel mistreated and possibly even betrayed by their colleagues. Some MEC members are recalled and uncertainty abounds. Leadership at ACPA's most senior level was divided. The MEC was split and Members seemed angry. In the vast majority or organizations, the leader's persona and values have a tremendous impact on the personality and values of the organization. When organizations have a dual and divided leadership, the results are detrimental to unity, strategy and execution. This is aggravated significantly by the dual leadership model that was put in place to protect Members from a rogue MEC.

13.35 Subsequent elections take place in Montreal and Toronto to fill the vacancies for the recalled individuals. From various interviews and future voting patterns it appears that the individuals who are elected are pilots with less ACPA experience who were opposed to TA1 and seem to favour a more aggressive approach to make demands from the Company and to look after mid and

younger pilots' interests.

13.36 At the June 9 & 10, 2011 MEC meeting, a new MEC Chair is elected and steps into a very challenging set of circumstances. A Committee known as the Negotiations Working Group (NWG) is also formed from a small number of volunteers who are prepared to evaluate the situation and make recommendations for the next round of negotiations.

13.37 In July 8, 2011, well-known labour figure and former CAW leader Mr. Buzz Hargrove, who met with the MEC, reiterated the importance of harmony and unity within the MEC which would transform into unity within the pilot group.

14 Continued Negotiations & FOS - NC2 (2011-2012)

14.1 On July 20, 2011, the Negotiations Working Group (NWG) presents an in-depth evaluation and assessment of the situation with their findings and recommendations to the MEC for review and approval. This well written in-depth analysis delivers a recommendation to the MEC that the negotiations should be based on the existing contract and not TA1. The NWG also correctly identified the risk associated with this could likely lead to increasing the risk of third party (i.e. Government) intervention. However, it is viewed by some that this report provided an ultimatum to the MEC to endorse NWG and its terms and may have been in violation of the ACPA Constitution. From various accounts, this group strongly supports taking a much more traditional positional bargaining approach to optimize Members rewards and many went so far as to say this group was looking to pick a fight with the Company.

14.2 The MEC accepts the NWG's report and most of the NWG is then reconstituted as the second Negotiating Committee (NC2). Labour Relations support comes from the Executive Director. The personalities on NC2 are smart, tough, determined individuals who feel a more unilateral negotiating position and approach with the Company is required. While a junior FO is appointed as the Chair of NC2 and the official leader, another extremely intelligent and powerful committee member is likely a major force in this group. It was acknowledged this individual has an impressive capacity and was able to work on completing his law degree while being heavily engaged in the negotiations activity. ACPA's Executive Director is also actively involved. As previously mentioned, he has long term union background with a history of using traditional bargaining techniques. Backed by the Membership's rejection of TA1 and a more adversarial MEC approach, NC2 is given the mandate by the MEC to take a much more aggressive positional negotiating approach with the Company.

14.3 The Company immediately interprets the NC2 make-up as a sign that ACPA is taking a confrontational approach. Company representatives know the majority of the NC2 members well and are not pleased with what they believe is an adversarial tact. Company members informed the interviewer that the meetings with the NC2 were all very tense, confrontational and sometimes disrespectful.

14.4 The Company clearly senses that ACPA has now decided to act more aggressively and take a one-sided approach. It is likely at this point that the CEO and senior executives of the Company have determined that reasonable, mutually agreeable negotiations with ACPA and NC2 are not likely to occur. From the Company perspective, it appears that a mutually agreed upon, interest-based negotiation process did not satisfy ACPA and that ACPA now wants to engage in a battle or perhaps a war with the Company. At this point, it appears that positions are polarizing and that the relationship between ACPA, its negotiators and the Company is becoming antagonistic.

14.5 Upon reviewing the information to date and before speaking with any Company representatives, it seemed apparent that the Company would at this point felt it was necessary to keep labour peace while looking to exercise their authority and control over the situation. As the various unions of Air Canada were seemingly unable to deliver ratification from their Members on negotiated agreements with each of their negotiating teams, it seemed like this would be a natural response from any executive team focused on running a profitable operation.

14.6 At this point, ACPA's NC2 began to move ahead to execute its MEC endorsed strategy to work from the existing contract and look to start negotiations from scratch.

14.7 Unfortunately, this approach was not agreeable to the Company and as previously mentioned, the MEC had been notified in person by the CEO that starting anew was not an acceptable

alternative. A significant number of ACPA's internal labour relations advisors, ACPA's legal advisors and ACPA's various external advisors also felt that this approach was not going to be effective. Government mediators, labour representatives and common sense might tell you that the best way to proceed would be to work from the most recent agreement and look to make changes or modifications from it. However, the NC2 believed that the best option for the Members was to start from scratch and they were supported by the MEC of the day.

14.8 The Company, after spending almost eight months negotiating the last agreement, was not prepared to start again from the beginning. The Company would have been prepared to work from the TA1 and modify it, as they believed many of the changes previously negotiated in the agreement were required to allow them to build a more viable, competitive airline. The Company was unwilling to take many of the changes off the table and clearly did not want to start again with a group of adversarial minded negotiators who employed a take it or leave it approach.

14.9 It is also believed that the Company would have been prepared to re-allocate resources to a different mix of the pilot group so long as the total compensation was not altered significantly. For the most part, it appeared that the Company was willing to go with ACPA's view on how to share the pie...but the size of the pie was fixed as was many of the structural changes in TA1 - LCC, Pension, Scope, etc.

14.10 As long as NC2 was not prepared to work from the TA1, it seems apparent that the Company's strategy was only to do what was required from a legal and regulatory perspective until ACPA decided to come back to the table in a more collaborative negotiations approach and likely dealing from TA1 as the starting point.

14.11 During the fall of 2011, the NC2 conducts several surveys of the membership regarding wages and working conditions (WAWCONs). While these surveys are valuable input, the results can be difficult to interpret and can be skewed to mean whatever a negotiating committee would like to see.

14.12 In October 26, Air Canada files of Notice of Dispute with the Federal Mediation and Conciliation Service requesting that a Conciliation Officer be appointed to facilitate the bargaining process. At this point, the MEC is made aware that the Company views ACPA's position as being confrontational. It's likely quite safe to assume that at this point the Company begins to exert its influence in Ottawa.

14.13 It appears that NC2 stuck to this philosophy for the duration of its tenure and was not willing to change its philosophy or approach right until FOS. As one Company member mentioned, this approach although challenging was extremely beneficial to the Company's position. He then went on to mention that the Company was disappointed that they were unable to have a working relationship during this time.

14.14 Once again, the interviewer had several frank discussions with the majority of the NC2 Committee members. Once again, it was apparent that the members of NC2 sincerely believed that their approach was in the best interests of the Members of ACPA and went into battle with the ongoing support of the majority of the MEC. Whether or not that is the case is disputable, however, it is believed that the intent of the individuals was true; that they conceived and executed a more aggressive, hard-line strategy that they felt would produce the best outcome.

14.15 Of course once a more aggressive, fixed and non-negotiable type strategy was in place, it was and would be very difficult to back down from it. Going hard-line was not an easily reversed decision. Once the MEC decision had been made to engage tougher negotiators who took a more one-sided view, especially with a group of dominant, competitive alpha leaders at the helm

of both the MEC who had staked their political fortunes on being more aggressive with the company and the NC2 who clearly came out favouring a tougher negotiating stance, it would likely result in a “winner take all” outcome. However, one needed to also recognize that the Government had a hand in determining who would win the prize. It should have been apparent that the Government was likely to get involved and would not favour labour.

14.16 The MEC Chair kept focused on internal operations of ACPA and the MEC and was not able to engage in discussions with the CEO. The MEC Chair worked responsibly to keep Members informed and followed a process to allow the NC2 handle the majority of the negotiations and relations with the Company. Unfortunately, the MEC Chair and the CEO of the Company did not have any official, regular communications process in place and the lack of this activity may have led to further polarization of opinions and labour challenges. In hindsight, perhaps if the MEC Chair might have been insistent about meeting with the CEO to open an additional, official channel of communications, then perhaps the outcome might have been more favourable for ACPA Members.

14.17 At a special MEC meeting on November 15 & 16, the NC2 gives a confidential briefing to the MEC and presents its opening positioning for bargaining, which is somewhat controversial and barely passes on a 7 to 5 vote.

14.18 In interviews with ACPA's various Committee Chairs and Members it was interesting to note the difference in their perception between how NC1 and NC2 operated. The Committee players generally viewed NC1 as being reasonably inclusive and consultative with expected tension and disagreements over issues. Overall, the Committee players seemed to feel that they had a reasonably good working relationship and were able to share their opinions and get their points across with NC1. At the outset, their relationship with NC2 relationship was relatively open and involved, but over time, the various Committee Chairs and Members indicated that they had little involvement or engagement with NC2 and that it was operating much more autonomously than NC1 did. This approach resulted in the disengagement by several of the volunteer Committee Members during the second round of negotiations.

14.19 In November 23 of 2011, a Federal Conciliator began presiding over meetings between NC2 and the Company. Unfortunately, it appears that positions were very polarized and it appears that little progress was made.

14.20 In December 19, 2011 on MEC Conference Call the NC2 Chair stated that the Negotiating Committee had been at the bargaining table with the Company numerous times and were giving the Company various components of the ACPA package with an agreement from both sides that certain of the main issues would be tabled at the end. He reported that events had been progressing smoothly, with encouragement from the federally appointed Conciliator, and that ACPA was providing clarification on issues when requested by the Company or the Conciliator.

14.21 In interviews with several Company representatives, they also indicated that the discussions with NC2 were not very fruitful. For the most part it was a series of demands followed by debates over one another's positions without much in the way of debate and recognition of each party’s challenges. While this may have been intentional on the part of NC2, it clearly did not generate any support from the Company and only resulted in further polarization of opinions and began to lead to a more antagonistic relationship.

14.22 In interviews with NC2 members, it seemed that the individuals involved felt that their best approach to a successful arrangement with the Company was to be adamant about ACPA's demands. They were operating within the context that their Members had turned down TA1, that the previous MEC body did not endorse TA1 and that the then current MEC had given NC2 the

mandate to take a firm, aggressive negotiating stance. NC2 viewed themselves as the champions to execute the strategy they proposed and was endorsed by and 8 to 4 vote by the MEC that was supported by the MEC Members primarily from Toronto and Montreal.

14.23 In January of 2012, Air Canada's Board of Directors approved the establishment of a Low Cost Carrier. Air Canada was clearly moving ahead on its plan to establish a related brand to tackle the leisure travel market with or without the involvement and support of ACPA and its members.

14.24 Although the Canadian Parliament is in recess, on January 10, 2012, the President informs the MEC he will attempt to set up a meeting with Federal Minister of Labour Lisa Raitt to communicate ACPA's position.

14.25 On January 17, 2012, an MEC Conference call NC2 informed MEC that Company had tabled its proposal to NC2 and was complete except for the pension component. Both NC2 and the Company agreed to extend the conciliation period until January 23rd. NC2 declares it is committed to bargaining a fair agreement and will not deviate from membership mandate from the WAWCON surveys. NC2 then debriefs the MEC on the content of the Company proposal.

14.26 Negotiations moved ahead without much progress and moved into the mediation phase of the Conciliation process where the 21 day "cooling off period" which was scheduled to end on February 14th. The Conciliator was appointed as the Mediator to assist both parties and negotiations were to continue during this period. It is believed that Company may have had a leak on its proposal which may have made its way into the hands of several pilots. During the mediation process, NC2 presented its proposal back to the Company and both parties worked through the Mediator. The Company did not indicate how long they would need to review and respond to NC2's proposal. NC2 informed the MEC that ACPA should start preparing to not have a contract as of February 14, ironically on Valentine’s Day. At this point, it's clear that the relationship between the Company and NC2 is continuing to be adversarial.

14.27 On January 26, at a Special MEC Meeting with NC2 in attendance, there was discussion of the recent Age 60 ruling would require input from MEC for NC2 as the Company had raised it in their last proposal, but there was uncertainty as to how to proceed. Although ACPA would like a consistent Defined Benefit pension plan for all its Members, it is communicated that other Air Canada Unions have ended up with a hybrid of Defined Benefit and Defined Contribution plans in their collective agreements and that the majority of organizations in Canada are moving in this direction.

14.28 At this point in the process, it is communicated that the pilots have a right to strike and the Company has the right to lock out the pilots. The Company had tabled their proposal the previous week and it was conveyed that it was an extreme position with many changes.

14.29 NC2 wanted to hold a Road Show to explain to pilots what the issues are and the need for their support via a strike mandate. NC2 recommends a shortened 5 day strike vote before the February 13th deadline.

14.30 ACPA staff members from Labour Relations and Communications advise the MEC that taking a strike vote will be taken as counterproductive by the Company if ACPA's objective is to seek a negotiated solution. They indicated that issuing a strike vote would not likely be to ACPA's advantage and that this would allow the Company to appeal to the Government for their support.

14.31 The MEC urges the need for a face-to-face meeting with Air Canada's CEO and agrees that arrangements are made for the MEC Chair to meet with the CEO. After the meeting with the CEO, the MEC Chair would hold an MEC Conference Call on Tuesday, January 31 to discuss

conducting a strike vote

14.32 On a February 3rd MEC conference call the MEC Chair with ACPA President and Secretary-Treasurer reported that they had met with CEO Rovinescu, SVP of Operations David Legge and Senior Director of Flight Operations Rick Allen to discuss the situation. They informed the Company that that ACPA was prepared to extend the deadline for negotiating to continue. The MEC Chair indicated that NC2 was bargaining in good faith and were willing to agree to an extension of the time lines. The Company did not reciprocate and was given until February 6th to respond to ACPA. The MEC embarked in a lengthy discussion on a potential Road Show in order to engage the membership and try to seek a strong strike support mandate from the pilot group.

14.33 On a February 6th MEC conference call the MEC Chair reported the Chair, with the ACPA President, NC2 Chair and Executive Director, met with the Honourable Lisa Raitt, Minister of Labour and her officials to discuss the current negotiations. They discuss the ACPA perspective on what transpired over the last 17 months of bargaining.

14.34 The MEC then unanimously passed a Motion to authorize a strike vote to commence within a 24 hour period commencing on Wednesday, February 8, 2012 at 1800 EST.

14.35 On February 14, 2012, a strike vote by 97% of ACPA Members delivers a 97% mandate to strike if necessary. This high level of endorsement by the Members causes the Company and the Government to take notice. The Company and Government don't want a strike and the Government fast tracks the preparation of Bill C-33 - *Protecting Air Services Act* - to ensure there is no disruption of air travel in the immediate future.

14.36 On a February 14-16 MEC meeting The MEC Chair reported that the Minister of Labour, The Honourable Lisa Raitt, advised the Association on February 13, 2012, that she was appointing retired Justice Mme. Louise Otis and Mr. Jacques Lessard, the Acting Director General of the Federal Mediation and Conciliation Service, as special co-mediators pursuant to Section 105 of the Canada Labour Code, for a period of up to 180 days.

14.37 ACPA will respond to Minister of Labour Lisa Raitt that ACPA consents to the mediation process she has outlined. The MEC Chair reported that on Friday, February 17, NC2 Chair and its Executive Director will meet with the mediators in Montreal to provide background on negotiations, discuss schedules and rules of engagement going forward. The MEC entered into confidential discussions on the issue of a meeting with the mediators to determine what position ACPA would take.

14.38 On a February 23rd MEC Conference call NC2 Chair informed the MEC that the Minister of Labour invoked the Canada Labour Code to appoint co-mediators. However, one of the mediators the Honourable Justice Louise Otis was unavailable and would be away for the month of March. Mr. Jacques Lessard, Acting Director General of the Federal Mediation and Conciliation Service agreed to be available during this time. A request was made to the parties for a six month negotiation window with no lock out or strike for 60 days.

14.39 The MEC accepted a recommendation proposed by the Negotiating Committee to not seek a strike vote for 30 days and it was prepared to give assurances that the Company would not lock out for 30 days with no changes to the current collective agreement to alleviate fears about striking over the March Break.

14.40 On March 6th, the Air Canada component of the International Association of Machinists and Aerospace Workers (IWMAW) gave the Company 144 hours (6 days) notice that on Monday, March 12 at 12:01 am EST that they would exercise their legal right to withdraw their labour

during March Break. The company said it would lock out both the pilots and the machinists at one minute after midnight. Meanwhile, Labour Minister Lisa Raitt said the government had asked the CIRB to consider whether a disruption at Air Canada would pose a health and safety risk. The Government communicates through the media that if the Company were to give notice to lock out the pilots, it would coincide with the IAMAW's timing to strike and that the Government is ready to pass back-to-work legislation that would effectively ensure that IAMAW and ACPA would not be able to strike

14.41 On a March 7th MEC Conference call MEC Chair recapped with MEC that there was a dispute between NC2 and Pension Committee on WAWCON Survey on pension issues. The MEC Chair also reported he had met with Company and NC2 plus the federally appointed mediator, Mr. Jacques Lessard and the Company had given the Association an ultimatum. He went on to inform the MEC that the Company tabled a "best, last and final" offer with an expiry of 12:00 noon the following day - March 8, 2012. This "Final Offer" was similar to the Company offer presented to ACPA on January 29, 2012 with a few concessions even though the Company had previously indicated they were prepared to follow a negotiation process that could last up to 180 days.

14.42 The potential strike is set to occur during March Break, when the House of Commons is in recess. Although timing is set to cause maximum disruption to the airline, it also creates significant concern for the Government who do not want business and leisure travel disrupted during one of the busiest times of the year and one that would cause significant negative voter impact.

14.43 On a March 7th MEC Conference call, the NC2 Chair reports that NC2 had evaluated the Company's "last, best and final" offer tabled earlier in the day. NC2 compiled a series of actions contained in a document entitled "Recommended ACPA Strategies". MEC review the document and engaged in a confidential discussion. The MEC adopts the NC2's recommended strategic action plan in advance of the Company's March 8, 2012 noon deadline.

14.44 At some point in early March, various behind-the-scenes, government-supported activities occurred. A respected, senior Federal Government official confidentially agreed to share information about activities that occurred to the interviewer with the proviso from the interviewer that none of the parties be identified. The official agreed to volunteer information to help ACPA Members in this review. With the agreement by the interviewer to not identify any of the individuals involved, it was conveyed that the official sought to mediate a collaborative solution between the highest levels at Air Canada and one of ACPA's leaders who cannot be identified. Serious discussions were facilitated by the official at very high levels with the ACPA leaders and the Company.

14.45 Although the Company was prepared to agree to negotiate for labour peace in a reasonable time frame, it turns out that no resolution was attained. Despite the official's best efforts to resolve the situation peacefully, the official indicated that the senior ACPA leader they were communicating with was either unable to deliver, did not have the authority to act or went back on their word once a potential resolution appeared to be in place with the Company. While it's probably very frustrating for the ACPA Members not to know who the individuals are and the source cannot be revealed, the interviewer is confident that the official was sincere and conveying accurate information.

14.46 On March 9th, the federal government serves notice through the media that it would have back-to-work legislation on Air Canada's contract disputes within a few days.

14.47 On March 12, the MEC Chair resigns as he decides to retire. Timing is unfortunate as another MEC leadership change is being made at a critical time. Several pilots interviewed felt that the MEC Chair was not pro-active enough in taking action to communicate with the CEO from the

outset and that may have resulted in a further breakdown of communication between ACPA and the Company. Given the recall for the previous MEC Chair, it is understandable that the MEC Chair would be hesitant to be seen as having a close relationship with senior executives at the Company.

14.48 On March 12, 2012, another MEC Chair was elected for the remainder of the term until December, 2013. He is a charismatic leader who had previously led ACPA on a successful strike and his election is interpreted by the Company that ACPA is preparing to engage in labour unrest.

14.48 On March 12th, the government introduced Bill C-33 *Protecting Air Services Act*, back-to-work legislation indicating that the stoppage at Air Canada was something the country could not afford. The government invoked closure on March 13 to accelerate the passage of the bill and then on March 14, 2012, at a late-night session in the House of Commons at 1:30 am, the federal government passes Bill C-33 into law, mandating that no strike or lock-out will occur and starts the 90 day Final Offer Settlement process.

14.49 Concurrently, on March 12 - 14 at Special MEC Meeting the MEC authorizes to send responses to the Company regarding the letters sent to ACPA concerning "Illegal Work Action - Notice to Cease", and "ACPA Industrial Action Committee Newsletter #03 and Distribution of Pamphlets".

14.50 On March 14 to March 16, the MEC Chair issues several Newsletters to the Membership. The first letter informs pilots that if they do not feel fit to fly due to stress incurred, possibly as a result of contract negotiations, that they have the right to stop flying and would not be disciplined. The next newsletter introduces himself as the MEC Chair to the Membership. The next newsletter informs the Membership and the MEC that he has declared himself unfit to fly due to stress from concerns regarding flight safety and liabilities. The next newsletter communicates the establishment of a committee to consider removing management pilots from the ACPA seniority list. These tactics may have felt appropriate at the time, but several people from within ACPA and the Company mentioned that these tactics were emotional, felt like old-style union approaches and were not becoming of an association of professionals.

14.51 During the month of March, both MEC Chair and President take steps to communicate pilot concerns to the media and are successful in obtaining some media coverage. Reports are mixed as it does increase awareness for pilot's issues, but in some cases makes pilots look to be greedy or to seem entitled. Several individuals interviewed indicated that timing during March Break was not good as the general public perception was that they were being held up for ransom. The MEC Chair and ACPA President both receive letters of discipline from the Company for their speaking in uniform and partly due to an Air Canada pilot's hat being used in the advertisement.

14.52 As previously mentioned, Bill C-33, *Protecting Air Service Act*, was passed in House of Commons on March 14, 2012 resulting in ACPA and the IAMAW being forced into binding arbitration with Air Canada. The bill removes the right for the airline to lock out its ground crews, mechanics and pilots and the unions that represent those workers from striking. The legislation forces both sides in the disputes to arbitration where they must make a Final Offer Selection (FOS) where eventually Arbitrator Stanley is named to preside once again. In this process both parties will submit their final offers in their labour disputes to a federally-appointed mediator who will select one or the other in its entirety.

14.53 On March 17, Air Canada seeks illegal strike ruling by CIRB for alleged "sick-out" action.

14.54 On a March 22-23 MEC Meeting MEC Chair Bélanger reports to the MEC that he attempted to establish an in-person meeting with CEO. CEO Rovinescu advised the MEC Chair that the Company was not prepared to meet or bargain unless ACPA is prepared to provide innovative

solutions and present them to Captain Allen of Flight Operations. The CEO was clearly sending a message that the NC2 approach was not acceptable to the Company and that the Company would not negotiate unless the approach was open to new options.

14.55 At this meeting the MEC also retains Cormark Securities Inc., a brokerage firm to look consider other financial alternatives. Cormark subsequently begins beating the bushes on Bay Street and possibly Wall Street to find potential investment allies who would make a deal to invest in Air Canada and support ACPA. The financial community is a small one filled with various alliances, allegiances and gossip. It is highly likely that word of this initiative makes its way to the Company and CEO Rovinescu who is very well connected on Bay Street. This issue is also discussed by an ACPA official directly with the Company CFO who is highly likely to have raised it with the CEO. It is quite likely the CEO is very displeased by what might be seen as a rival takeover bid or as a potential mutiny in the making by the Captains of the airline he leads. The MEC also discussed the Final Offer Selection (FOS) alternatives with the NC2 who would be preparing and tabling the FOS before the Arbitrator in the near future.

14.56 On March 24, a group known as the Group of 27, consisting of many longstanding experienced ACPA pilots from both Air Canada and Canadian Airlines heritage endorsed the TA1 and expressed their concern in a document about how the situation was negatively impacting the Members. For many of the pilots this was a warning beacon delivered by longstanding players who felt they were raising an alarm. However, for many others, especially the younger pilots who felt that the TA1 was inequitable to their group, the Group of 27 reflected the views of the old guard who were perceived major beneficiaries of the TA1 and may have only served to fan the flames of discontent by those who believed the TA1 was unfavourable to them and their cohort

14.57 In an April 13 MEC Chair newsletter, Members are informed that the Canadian Industrial Relations Board (CIRB) concluded that a number of pilots booked off sick and were deemed to have engaged in an unlawful strike on April12 & 13 and issued a cease and desist order.

14.58 At an April 17-29 MEC Meeting MEC the Chair invited the Company to resume negotiations for a collective agreement in light of the fact that it would be advantageous for both sides to reach a negotiated settlement rather than a contract that is foisted on the membership by an arbitrator.

14.59 On April 19, ACPA and the Company signed a Memorandum of Agreement (MoA) for negotiations protocols agreeing to have the arbitrator assist in negotiations for 10 days under a media blackout. If negotiations were unsuccessful, then there would be a 90 day period for the FOS process under the Protecting Air Service Act and any agreement would be subject to each party's ratification process.

14.60 On a May 14 Special MEC Meeting, the MEC Chair gave a detailed confidential briefing to the MEC on the current state of bargaining between the Association and the Company as they try to reach a negotiated settlement for the pilot membership. The MEC agreed that they are fully supportive of the Negotiating Committee and their ability to provide innovative and creative solutions in an effort to keep Air Canada as a viable airline, long term, as well as in the short term.

14.61 On a May 19 Special MEC Meeting, the MEC Chair reported that the ACPA Negotiating Committee has prepared a historical document of all activity over the past ten days throughout the negotiating period and presented it to the Arbitrator on May 23rd. He noted that after all of the hard work and good intentions from the ACPA representatives, the Air Canada representatives just stopped negotiating and the process failed.

14.62 The MEC Chair stated that the Negotiating Committee had done a tremendous job with creating new language and had fully committed to resolving the differences with the Company and an

agreement had been made for the MEC to be close at hand in order to expedite turnaround times. The Negotiating Committee felt they had conducted themselves respectfully, courteously and professionally; however, it had become apparent that the Company was only interested in reducing costs in Flight Operations.

14.63 The MEC also engaged in discussions to work with Cormark, which could identify potential activist investors inviting them to consider launching a proxy contest to replace the Board of Directors and that ACPA was prepared to work with any investor willing to proceed.

14.64 The MEC entered into a confidential discussion concerning how to move forward and what parameters the Negotiating Committee should be given for their FOS proposal. The MEC then agreed to wait until Wednesday, May 23 when both parties will meet with Arbitrator Stanley and the path forward will be determined.

14.65 On a June 7 Special MEC Meeting the Final Offer Selection (FOS) proposal is to be presented to Arbitrator Stanley on July 5, 2012. Hearings are scheduled for July 10 and 11. A blackout is imposed to prevent either party from discussing the situation publicly.

14.66 The issue of the legislative changes to the age of retirement which becomes law in December 2012 has made an impact on any pension proposals and much work has been done to incorporate this aspect.

14.67 The Negotiating and Pension Committees report that they received input from numerous experts, legal counsels, actuaries and ACPA Directors of Labour Relations when compiling their respective proposals.

14.68 The MEC does not pass a motion to approve a Hybrid Defined Contribution/Defined Benefit pension plan for New Hires for the Final Offer Selection proposal. The MEC then resolves to accept a Defined Contribution pension plan for New Hires as part of the Final Offer Selection proposal. Members from Toronto & Montreal outvote the Western MEC Members.

14.69 The MEC does not adopt the Pension Committee's Final Offer Selection pension proposal and instead adopts the Negotiating Committee's Final Offer Selection pension proposal. Similarly, members from Toronto & Montreal outvote the Western MEC Members.

14.70 On a June 12-14 MEC Meeting it was noted that approximately 40 pilots participate in an information picket at the Air Canada Annual General Meeting. MEC was also given a confidential brief by NC2 on the proposed FOS being proposed.

14.71 Cormark Securities continues to seek out capital markets and that the Strategic Planning Committee is acting as a facilitator to search for investment companies that could ensure stability for the future of the airline and support ACPA.

14.72 On a July 3 Special MEC Meeting the MEC reviews and unanimously adopts NC2 FOS proposal. NC2 Chair indicates enormous amount of work is required to complete FOS and submit to Arbitrator Stanley in two days.

14.73 On July 30, 2012, Arbitrator Stanley made his award in favour of the Company. The Contract is binding until April 1, 2016. Significant concessions on scope, pay, pension, expenses and retirement relative to TA1 have been made.

14.74 On a August 16 MEC Meeting The MEC Chair reported that at the recent road show, the membership was advised of the possibility to file an injunction to the implementation of the

government imposed contract; to launch a Constitutional challenge to the law for the government's actions concerning Bill C-33 and subsequently file an application for a Judicial Review of Arbitrator Stanley's decision.

14.75 In October of 2012, Captain Geoff Wall becomes MEC Chair and Captain Craig Blandford is elected as President

14.76 On November 1st, the MEC decides to drop the review of Arbitrators Stanley's decision as legal opinions indicate that success is very unlikely

15 Present Day

15.1 Although a variety of activities occur since the negotiations between ACPA and the Company concluded, the interviewer felt that additional comments and analysis of this time frame was not required. It does appear that since the negotiations dispute, the relations between pilots and the Company have improved. ACPA leadership has taken steps to build lines of communications and operate in a respectful manner with the Company. Absenteeism rates with the pilots are extremely low. Many of the pilots who were opposed to the Low Cost Carrier are now working for it and several have indicated that it is a rewarding opportunity.

15.2 The Company has made significant progress in reducing the pension deficit which is of benefit to all. The Company has also made ongoing efforts to keep the pilots informed about business activities and have been working with ACPA collaboratively on this assignment.

15.3 ACPA has since developed and received approval for a strategic plan for the future and has been working towards achieving the goals established in the plan. This report and the affiliated Governance Review are a healthy sign that ACPA is prepared to examine itself, evaluate what changes should be made and hopefully implement the appropriate actions required to ensure it can best serve its Members.

15.4 Hopefully ACPA and the Company will be able work collaboratively to resolve any outstanding issues in the near term and establish a mutually beneficial contract over the next few years that will allow ACPA's Members to optimize their wages and working conditions while helping the Company to grow and improve its performance.

16 Interviewers Insights

16.1 Many pilots conveyed to the interviewer that they did not read TA1 and when they eventually read it and took the time to digest what was in it, indicated that they would have changed their vote to for it from against it. Many others who also stated they voted against it have subsequently expressed their opinion that it wasn't as bad as they had initially felt and it was probably what the Company and ACPA had to do. However, with the non-vote by the MEC, the average pilot likely was looking for insights on the TA1 and was likely in a position to be persuaded by those who had a strong opinion.

16.2 The NC1 leader and team members are highly intelligent, strong willed, analytical and data centric individuals. Like many pilots, they analyze situations, assess the appropriate course of action then respond with conviction and action. Accounts from participants indicate that they were faced with an angry crowd that jeered, insulted and shouted them down without giving them a legitimate opportunity to explain the agreement and their months of hard work on behalf of their fellow pilots.

16.3 As the interviewer, it was disappointing to learn what occurred at the road-shows. The pilots of Air Canada interviewed are all exceptional people who deserve a great deal of respect. Individually, virtually every pilot interviewed is a positive person with tremendous talent, determination and capability. It was unfortunate to hear of strong negative group behaviour where pilots who are responsible for so many people's lives and millions of dollars of equipment behaved so disrespectfully to their own dedicated group of hard-working, committed peers. The individuals of NC1 sacrificed a tremendous amount of time and energy to do what they felt was best for their fellow pilots. It's totally appropriate to disagree with colleagues about issues, but the lack of professionalism demonstrated at this juncture did significant damage to the pilot's financial lot and standing with the Company, the Government and the public. Being an airline pilot is an honourable profession and pilots should strive to be the best positive professionals they have been trained to be. Hopefully, these past incidents will serve as a notice to pilots to never again treat one another with the level of animosity and disrespect seen during the last contract round.

16.4 The NC1 had done their best to come to an agreement with the Company. They believed that they had negotiated to the best of their abilities and that further negotiations with the Company would be futile. They were tired from the negotiation process and satisfied that they did the best they could to build a financially rewarding and viable agreement. However, rather than being greeted as friends and allies who did their best on behalf of their colleagues, they instead faced the angry wrath of so many pilots whose interests they fought to protect and defend. Although none of the members of NC1 that were interviewed openly admitted it, the interviewer sensed that both the members of NC1 and the recalled leaders were terribly disheartened to have gone through months of sacrifice, hard work and effort only to be rejected by those they worked so hard to serve.

16.5 In many ways it appeared unfortunate that the MEC Chair was recalled as he acted in what he felt was the best interests of the Members. His major mistake may have been to not communicate the significant changes coming to the Membership and to not force the issue to accept or reject the TA1. His leadership at the MEC was being undermined by the President who was likely a better politician and was exploring other interesting but highly unlikely options for ACPA. The TA1 was likely much better than the initial Membership reaction and definitely better than FOS. It seems more like a social media frenzy that fed on itself that brought about his downfall and that of the TA1. Regardless of the perspective of which alternatives to pursue, it's likely the difference in leadership opinion and personal style between the President and the former MEC Chair also had an impact. While the differences between the two men likely led to a split MEC and divided

Membership, it is a certainty that operating an organizational structure with two apparent leaders is confusing to Members, staff, the Company and the outside world.

16.6 Since 2000, there have been 14 MEC Chairs and Presidents at ACPA, not including interim MEC Chairs. Leaders and representatives from the Company, from the Federal Government and from the industry all indicated that they are confused and uncertain as to who was and is in command at ACPA. This dual leadership structure in an organization whose philosophy is to be collectively led results in significant political gamesmanship, confusion and instability. Quite frankly, it appears a bit like a revolving door which creates instability and a lack of trust in the organization by its Members, the Company and Government.

16.7 It's also difficult to appreciate why Toronto LEC Vice-Chairs were recalled for their support of a TA1 that was never given a fair hearing and could have likely been modified over time to smooth out the unsatisfactory issues. It appears that some Members reacted emotionally and used social media to enrage the pilot group at an emotional level rather than applying a more disciplined, logical, thought out debate regarding the merits of whether an agreement is a viable option.

16.8 The Company is also disappointed as their efforts to come up with a negotiated agreement with ACPA have not succeeded. They invested tremendous time and made significant financial commitments to arrive at the TA1 agreement. They had to bring the agreement to the CEO who in turn required Board support to have it approved. Both the Company negotiation committee and executives were hoping to have the pilots, as a strong group of leaders in the Company to sign on to a collaborative agreement that would allow Air Canada to grow market share, rather than being a stagnant player in the industry. While they ultimately achieved labour savings, they recognize that the last round of negotiations negatively impacted the relationship with the pilots.

16.9 However, as anyone who has worked in a larger corporation knows, the CEO is a powerful person who commands respect. To lead effectively, they need to deliver firm, fair, consistent leadership. To maintain order, the CEO must also demonstrate that they are in command over those they lead and need to consistently do what they say they are going to do. Once the CEO came to the MEC to inform them that this was the best offer and that starting from the beginning was not an option, it would likely be taken as an affront to his leadership authority if they did not support the agreement. The CEO likely believed that if ACPA could not deliver on the TA1 that labour peace with one of its leading unions was in jeopardy. While the following was NOT confirmed by any Company representative, after following this history it is the author's opinion from years of doing strategic planning work with numerous company leaders that the CEO likely felt he needed to put ACPA in its place for its inability to finalize a contract after months of fair negotiations. It is well known in the airline industry that many CEO's have been hung out to dry by pilot unions and Mr. Rovinescu may have determined that it was important to confirm that he stood behind his word when dealing with ACPA's leadership.

16.10 For the most part, the Government watches the situation from the sidelines. Although ACPA and its advisors have made some forays into the Federal Government, it is highly likely that the Company has significantly greater and much deeper relationships with the Federal Government at various Ministries and levels. The Company was spawned by the Federal Government, delivers a critical economic service to Canada and was recently a Crown Corporation. It carries the Canadian flag on its aircraft and is recognized worldwide as a global symbol for Canada. Leading players from the Government whose identity cannot be disclosed in an agreement to provide information to ACPA have shared the perspective that ACPA pilots who are both respected and viewed as extremely important to the airline need to recognize their place in the grander scheme of things. Pilots suffers from the stereotype by leaders in Government as a small, elite group of highly paid mostly white males who are perceived to be somewhat entitled adventurers and do not benefit from the more conservative view of other professions like doctors,

lawyers and accountants. Regardless of the reality, the perceived image of who pilots are and how they behave does have an impact on Government policy and activities. There is support for the "average" working union person, but sources from the Government have shared that pilots are not viewed as typical union workers and are not the beneficiaries of a sympathetic attitude by Government.

16.11 Given recent similar situations where the Government had imposed back to work legislation, the Company likely felt that the Government would support it during negotiations with its unions and especially with ACPA. Unless the Company did something inappropriate, it likely was assured it could rely on the Government to step in and provide favourable support for its position if and when required.

16.12 The MEC should have been aware of this political reality. The Company held and likely currently holds a powerful Government trump card for any union negotiations. As a result, a more self centred negotiation style with tougher, more militant demands by any union are likely to fail and result in Government intervention favouring the Company as evidenced over the last few rounds of negotiations.

16.13 Air Canada currently has several unions that represent its significant labour force. Although ACPA's membership is the smallest number of the leading unions, it's likely that the total compensation paid is the highest. Also, pilots are acknowledged to be the leaders of aviation flight crews and are at the top of the labour hierarchy when it comes to prestige, rewards, company relations and compensation.

> Approximately 8,600 baggage handlers, ground crews and machinists are represented by the International Association of Machinists and Aerospace Workers (IAMAW)
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> Approximately 6,500 flight attendants are represented by Canadian Union of Public Employees (CUPE).
>
> Approximately 3,800 customer service & sales staff are represented by the Canadian Auto Workers - National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW) - Now called UNIFOR.
>
> Approximately 3,000 pilots are represented by the Air Canada Pilots Association (ACPA).
>
> Approximately 75 in-flight crew schedulers are represented by the CAW. (Now UNIFOR)
>
> Approximately 75 flight dispatchers are represented by the Canadian Airline Dispatchers Association (CALDA)

16.14 During the last round of negotiations it was interesting to note that the Company was continuously involved in various stages of negotiations with its other unions. All four of the major unions during this round of negotiations reached a tentative agreement and each of them was subsequently not accepted by a vote of their respective memberships. The Flight Attendants actually had two tentative agreements that were turned down by their membership. The Company must negotiate directly with the union’s bargaining agents and cannot circumvent this process and communicate directly with the respective members. Company representatives indicated that they are trying to build a positive, motivated and collaborative workforce to profitably grow the business and achieve higher rewards for all. However, it is undoubtedly extremely frustrating for Company management to put forward contract offer after contract offer that are agreed upon by the expert

negotiators from each union and then repeatedly have them turned down by the memberships of the unions. Having such a large number of unions with contracts for renewal every three years results in ongoing labour paralysis which negatively impacts morale and performance across the Company as it's inevitable that one group or another is dissatisfied.

16.15 The Government is aware of these labour relations challenges faced by the Company. The Government seems to side with the Company which presents a view that they are negotiating fairly with each of the union's negotiating committee's and coming to agreements with them, but then the Memberships of each of the unions are turning the agreements down. A Federal Conservative government may tend to side with the Company as being disadvantaged by its unions and are concerned that the unions are negatively impacting the greater economic health and well-being for the Country's citizens.

16.16 NC2 was given a very tough task to tackle. The MEC of the day seemed to want to make a point and engage in a battle with the Company. The MEC picked a team of players who were up to the challenge and weren't willing to back down, even when it might have been most prudent to do so.

16.17 In many ways, the die was cast before NC2 stepped into the process. It's highly likely that the CEO had already determined that the Company was going to demonstrate who was in charge once TA1 was rejected. The Company knew it had the Government supporting it and that any close call would likely go to the Company. Unfortunately, NC2 made a significant strategic error in its approach to negotiate from a new contract position rather than going back to a variation of TA1. Although the NC2 had many chances to re-engage the Company and return to TA1 or something close to it, they refused.

16.18 Never the less, prior to the unsuccessful FOS offer there were several warning signs from various sources that the NC2 FOS approach to negotiate a new contract was not likely to succeed. Individual interviews corroborated that ACPA's legal counsel, ACPA's internal labour relations staff not involved in the negotiations, many of ACPA's Members and even non-ACPA union leaders have indicated that best option would be to either to renegotiate using TA1 as a base or at a later date to start with TA1 as a base for the FOS and make modifications to it in the unions favour. This was a costly error.

16.19 During the course of NC2's negotiations, several highly reputable experts who acted as ACPA's internal and external advisors and renowned union leader Buzz Hargrove all informed the MEC that the best alternative to proceed would be to negotiate from the TA1 and NOT to start fresh. Their collective opinion seemed to be that it was highly likely that the arbitrator would rule in favour of a proposed agreement that most closely resembled an agreement that had been negotiated by both parties. Once again, hindsight can be 20:20, but it seems that there was more than enough input from various trusted and experienced advisors that should have led the MEC of the day or NC2 to reconsider its strategy. During interviews with the Company members, they confirmed that their greatest concern at FOS would be if ACPA had simply re-issued the TA1 for its FOS contract proposal.

16.20 It is also believed that informal communications occurred between Company representatives and various Members of ACPA regarding the negotiations process during the ongoing months of discussion and debate. Although there are no official discussions taking place and no one from either the Company or ACPA volunteered that they directly had such discussions, there were rumours and allegations that various people had informal discussions about what was transpiring. It is hearsay, but was heard from several sources was that some Company representatives in the normal course of their affairs with pilots either in day to day business or at the Committee level communicated that the current NC2 approach was going to fail, likely be very costly to the pilot groups and that ACPA might have wanted to reconsider its approach and renegotiate from TA1

instead.

16.21 The MEC failed to address the critical NC2 error in negotiating style even though it was warned on numerous occasions by various staff and external advisors. The MEC was made up of new young members who wanted to prove themselves and were voted in by an angry Membership who rejected TA1 and were prepared to fight the Company. Unfortunately, the process was resolved in a manner that cost all Members a significant amount.

16.22 It is difficult to quantify the total economic difference between TA1 and the FOS settlement. One estimate by the NC1 which has not been publicly revealed or evaluated indicated that the difference between TA1 and the FOS contract may be as high as a few hundreds of millions of dollars worth over the duration of the contract. When the interviewer attempted to ask Company representatives what the value lost by ACPA members was, they quite properly declined to confirm the NC1 number, but several of them clearly indicated that it was a very big amount that ACPA Members lost. During interviews with the Company, their greatest concern during FOS was that ACPA would submit the TA1 or a very similar version to it which they felt would have easily been the Arbitrator's selection.

16.23 There is a percentage of ACPA Members and leaders who possess a strong, militant and negative bias towards the Company. This is likely to occur in any union or group with the numbers and history of a legacy airline. While remaining skeptical and wary at some level is definitely a healthy way to operate, a minority of the ACPA Membership has extremely little trust, respect or allegiance to the Company. It appears that a small minority of pilots possess an extremely negative bias towards anything from the Company and are vindictive in their relationship with Air Canada. While for some there may be legitimate reason for a negative given some of the legitimate and perceived past leadership activities at the Company. However, as a whole, engaging in a negative, combative attitude during periods of negotiation has and would alienate the relationship with the Company and likely continue to result in less than optimal results for ACPA Members in its contract negotiations process. This philosophy was supported by Canadian Labour Congress Vice President Hassan Oussef who stated at the MEC Orientation in the Fall of 2013 that best practices in labour negotiations are to negotiate your own deal and ensure the long term value of the relationship with the employer is kept intact.

16.24 It is important to note that pilots who work for Air Canada have an excellent profession. They are highly regarded, respected and viewed as elite players in the field in which they work. Pilots have the benefits of travel, flexibility, independence and freedom. For the most part, pilots love what they do and have earned the right to be successful. Pilots are well paid and have very good pension benefits. They are at the top of the food chain in the travel industry and despite being in an industry whose profit margins are notoriously thin and susceptible to losses, the pilots are relatively protected and do not incur a significant financial risk. Others in the industry and in the world at large are not so fortunate. While a healthy level of self interest is required and totally appropriate, the perception from various governments, business and citizens are that pilots are for the most part highly respected and well compensated.

16.25 While conducting this project for ACPA, it has been a pleasure to meet many fine people who work in this field. It is incumbent on the interviewer to inform the Members that the vast majority of people simply do not understand the complexity, training and expertise required to be a pilot. Unfortunately, overvaluing the real and perceived contributions and power that pilots have in the business has proven to be very costly to ACPA's members over the years and may give the appearance of greed and entitlement. During the last few rounds of negotiations, it is apparent that aggressive negotiations expectations fueled by a vocal minority of more militant voices with an anti-Company attitude has resulted in government imposed arbitrations and settlements that have worked against the pilot group and appears to have cost the Members a significant amount

of credibility and compensation. Hopefully future leaders will learn from this experience and ensure that future labour negotiations and ratifications are freed from short term, negative emotional reactions and are conducted in a positive and professional manner.

17 Recommendations

17.1 Philosophy, Culture & Teamwork

17.1.1 ACPA should stay focused on its core purpose is to optimize wages and working conditions for its Members. Safety is one of the working conditions.

17.1.2 All Members should operate with the highest level of integrity and treat fellow Members, the Company and the public with the level of respect they expect to receive from others.

17.1.3 To maximize wages and working conditions, the Members need to acknowledge the employer / employee contract. The primary job of an employee (individual or collective) is to deliver the maximum value for the employer. The employee's job is to negotiate the maximum value from the employer while ensuring the health and well being of the Company.

17.1.4 Members should decide if they want a "grassroots" organization that is a more political, less efficient collective process managed by the majority or a more hierarchical, accountable and efficient organizational structure that is granted the power by Membership votes to make and execute decisions.

17.1.5 Recognize that the current Federal Government is not likely to strongly support union action and beliefs.

17.1.6 A strike, while theoretically possible, is only likely to hurt ACPA Members and their long term interests.

17.2 Governance & Structure (See Governance Presentation for Details)

17.2.1 Revise ACPA's governance and leadership structure to improve accountability and responsibility.

17.2.2 The MEC Chair should be accountable to Members and not to the MEC.

17.2.3 Install the appropriate systems, practices and individuals capable of executing organizational goals.

17.2.4 Separate the "political" activities from the "operational" activities.

17.2.5 Revise the recall process.

17.3 Membership

17.3.1 Ensure ACPA Members can use their voting privilege to install the best possible leadership and structure for ACPA.

17.3.2 Ensure Members are kept informed of major issues on an ongoing and timely basis.

17.3.3 Ensure Members have substantial time for any agreement to be properly communicated, assessed, debated and understood before conducting any votes.

17.3.4 Be aware that a militant, anti-company behaviour from a small percentage of vocal

members will continue to have a negative impact on reduced wages and working conditions for the majority.

17.4 **Company Relationship**

17.4.1 Build a positive, collaborative and mutually beneficial relationship and culture with the Company.

17.4.2 Do what is required to ensure that the next agreement is a negotiated one.

17.4.3 ACPA and the Company should have ongoing, official activities at multiple levels to ensure communication, collaboration and achievement of each other's goals.

17.4.4 The MEC Chair and the President should have an ongoing, official relationship with the CEO of the Company.

17.5 **Leadership**

17.5.1 Operate in a fair, open and honest manner to serve the best interest of ACPA's Membership.

17.5.2 Make Contract and Negotiations a priority Agenda item at each MEC meeting. This activity is the leading priority of the organization and should be the lead standing item on the Agenda.

17.5.3 The MEC Chair and the President should issue joint monthly communication updates to the members with a more comprehensive quarterly report updating Members on the key issues of the day and activities of the organization.

17.5.4 Provide more detailed information to the Members on Contract and Negotiations.

17.5.5 Any fully displaced pilots working on ACPA's behalf should be working on those activities on a full-time basis and should not concurrently conduct any significant educational or business activities.

17.5.6 Analyze whether ACPA can achieve a long term shift in Government attitudes towards supporting ACPA and its various positions.

17.5.7 Revise the official ACPA communications activity and address questions raised by Members on the Forum and across the organization.

17.5.8 Give more credence to the advice and recommendations provided by ACPA's staff and professional advisors.

17.6 **Negotiations**

17.6.1 The MEC must either clearly recommend to endorse or reject any negotiated contract before sending it to the Members for their vote. Failure to do so is an abdication of leadership responsibility.

17.6.2 Ensure the future Negotiating Committees are representative of the pilot demographics.

17.6.3 Ensure Negotiating Committees actively communicate progress and content to the

MEC during the negotiations process.

17.6.4 Ensure Committee Chairs are actively involved in providing subject matter expertise to the Negotiating Committee.

17.6.5 WAWCON's need to have pilots to input and make hard choices between options and the tradeoffs rather than issue specific questions.

17.6.6 Conduct pilot focus groups to help Negotiating Committee evaluate complex trade-offs between issues / compensation rather than just conducting surveys.

17.6.7 Retain, use and share results from external resources for costing and financial analysis during the negotiation period rather than relying solely on Company data.

17.6.8 Benchmark ACPA compensation versus rest of world.

17.7 **Discipline**

17.7.1 ACPA to have a Code of Conduct for elected officials, volunteers and members.

17.7.2 There should be appropriate measures established and enforced for breach of the Code of Conduct.

17.7.3 Maintaining confidentiality when necessary is one of the terms of the Code of Conduct.